Annual Financial Report 2019

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

Tesmec S.p.A.
Registered office: Piazza Sant'Ambrogio, 16 – 20123 Milan
Fully paid-up share capital as at 31 December 2019 Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code: 10227100152

Website: www.tesmec.com
Switchboard: +39.035.4232911

TABLE OF CONTENTS

COMPOSITION OF THE CORPORATE BODIES

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

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

(*) Independent Directors

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

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

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

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

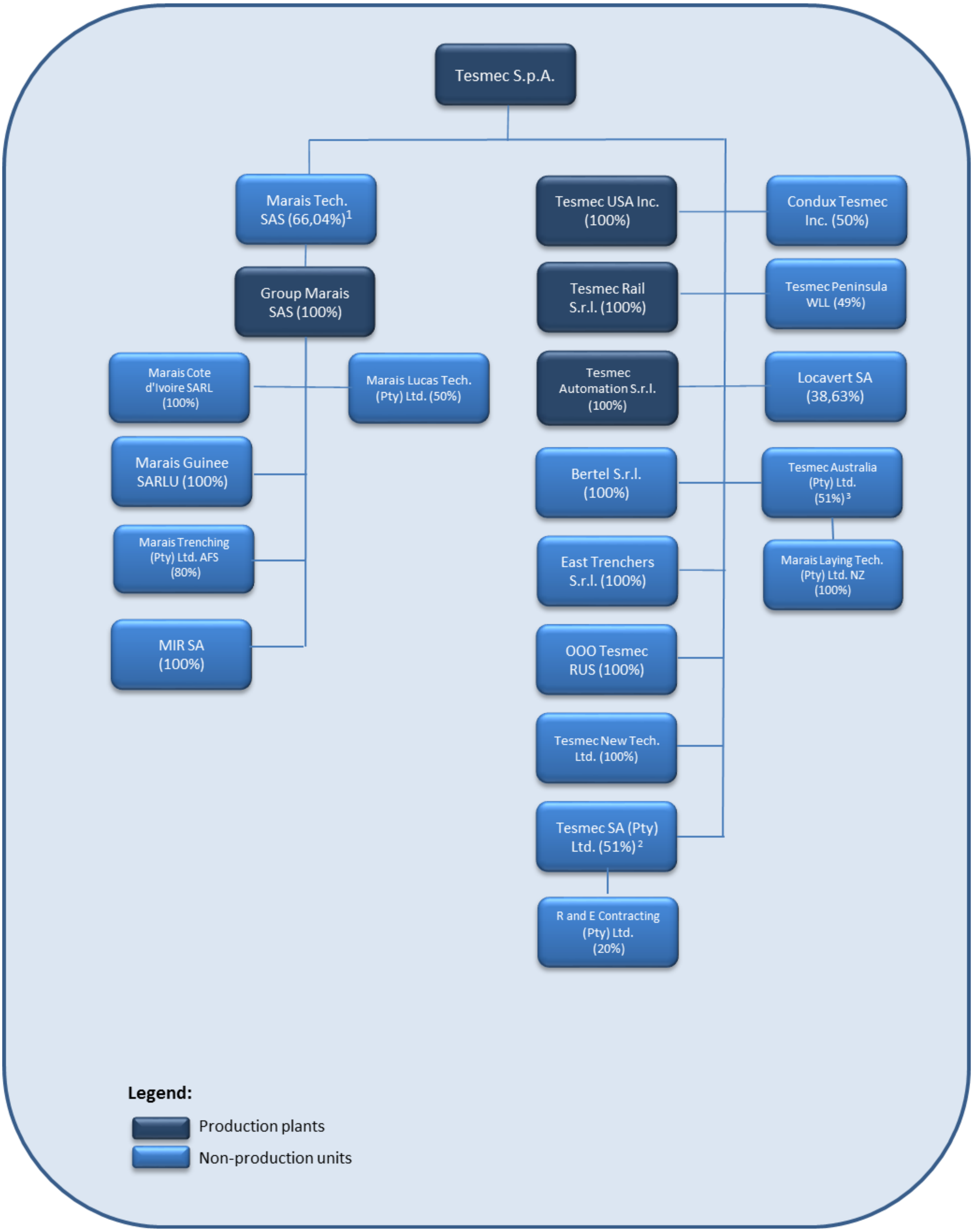
Members of the Remuneration and Appointments Committee (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021)

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

---

Lead Independent Director	Paola Durante
Director in charge of the internal control and risk management system	Caterina Caccia Dominioni
Manager responsible for preparing the Company's financial statements	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 a 100% basis.

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

REPORT ON OPERATIONS

1.Introduction

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

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

Founded in Italy in 1951 and managed by the Chairman and Chief Executive Officer Ambrogio Caccia Dominioni, the Group as from its listing on the Stock Exchange on 1 July 2010, pursued the stated objective of diversification of the types of products in order to offer a complete range of integrated solutions grouped into three main areas of business: Energy, Trencher and Rail. The structure has more than 900 employees and production plants located in Grassobbio (Bergamo), Endine Gaiano (Bergamo), Sirone (Lecco) and Monopoli (Bari) in Italy, Alvarado (Texas) in the USA and Durtal in France. Furthermore, after the reorganisation of the Automation sector, Tesmec Automation has 3 additional operating units available in Fidenza, Padua and Patrica (Frosinone). The Group has a global commercial structure, with a direct presence on different continents, through foreign companies and sales offices in the USA, South Africa, Russia, Qatar, China and France.

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

Energy segment

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

Trencher segment

- high-efficiency crawler trenching machines for excavation with a set section for the construction of infrastructures for the transmission of data, raw materials and gaseous and liquid products in the various segments: energy, farming, chemical and public utilities;
- crawler trenching machines for works on surface mines and earth moving works (Rock Hawg);
- specialised consultancy and excavation services on customer request;
- multi-purpose site machinery (Gallmac);
- this segment also includes the excavation services for power lines and fibre optic cables that constitute the core business of Marais Group.

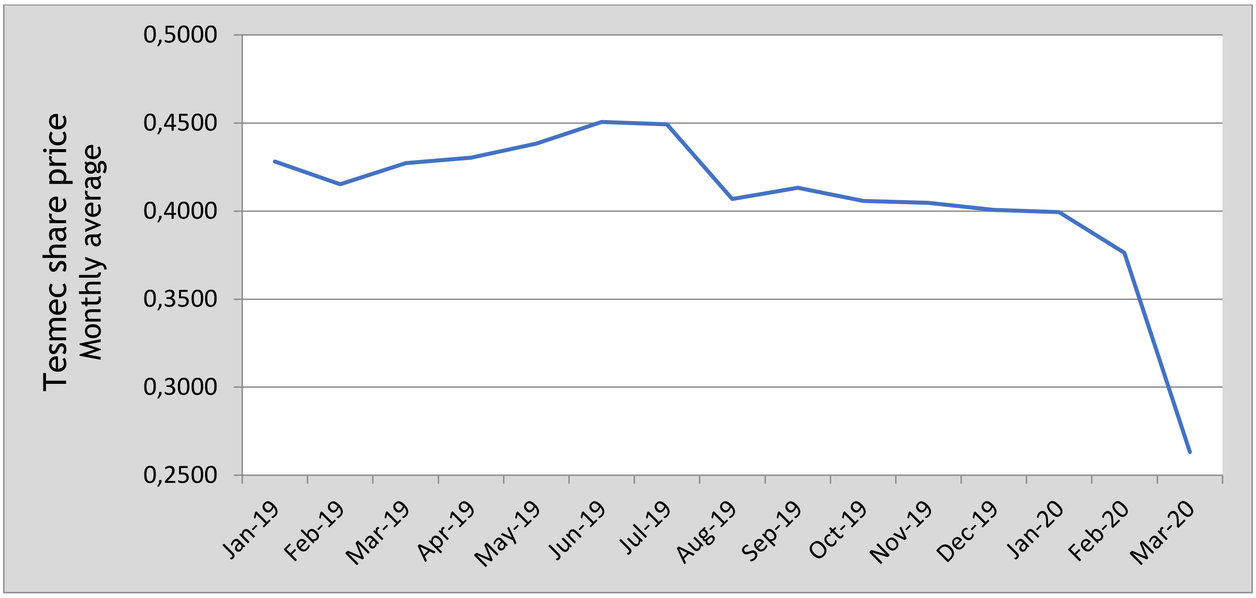
Rail segment

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

The know-how achieved in the development of specific technologies and innovative solutions and the presence of a team of highly-skilled engineers and technicians allow the Tesmec Group to directly manage the entire production chain: from the design, production and marketing of machinery to the supply of know-how relating to the use of systems and optimisation of work, to all pre- and post-sales services related to machinery and the increase in site efficiency.

2. Tesmec on the Stock Exchange Market

As at 31 December 2019, the reference price of the Tesmec share was equal to Euro 0.3970 per share while market capitalisation as at 31 December 2019 amounted to Euro 42.5 million. At the date of this report, due to the general negative performance of the stock markets in the context of uncertainty caused by the spread of Covid-19, the reference price of the share is Euro 0.2210 per share, and the capitalisation is approximately Euro 23.7 million. The following chart shows the listing price trend of the shares of the Parent Company from 1 January 2019 to March 2020:



Reference price as at 31 December 2019	0.3970
Reference price as at 13 Mach 2020	0.2210
Maximum price (21 May 2019) (1)	0.4730
Minimum price (12 March 2020) (1)	0.1815

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

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

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

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

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

- on 19 June 2019 Tesmec Rail S.r.l. signed a contract for the lease of a business unit (effective as from 1 July 2019) with Advanced Measuring Group S.r.l. (AMG);

- on 16 April 2019, the Ordinary Shareholders' Meeting of Tesmec met in single call and approved all items on the agenda. In detail, the Shareholders' Meeting approved the 2018 financial statements of the parent Tesmec S.p.A., which closed with a Net Profit of Euro 4,331 thousand and resolved to allocate this Net Profit for the year to Extraordinary Reserve. The Shareholders' Meeting also resolved favourably on the First Section of the Report on Remuneration pursuant to Article 123-ter of Legislative Decree no. 58/98 and authorised also the Board of Directors, for a period of 18 months, to purchase, on the regulated market, ordinary shares of Tesmec until 10% of the share capital of the Company and within the limits of the distributable profits and of the available reserves resulting from the last financial statements duly approved by the Company or the subsidiary company making the purchase. The authorisation also includes the right to dispose of (in whole or in part and also in several times) the shares in the portfolio subsequently, even before having exhausted the maximum number of shares purchasable and to possibly repurchase the shares to the extent that the treasury shares held by the Company and, if necessary, By its subsidiaries, do not exceed the limit established by the authorisation. The quantity and the price at which transactions will be made will comply with the operating procedures laid down by the regulations in force. This authorisation replaces the last authorisation resolved by the Shareholders' Meeting on 6 April 2018 and expiring in October 2019. The resolution concerning the authorisation to purchase treasury shares was approved with the favourable vote of the majority of the Tesmec shareholders at the Shareholders' Meeting other than the majority shareholder and therefore, pursuant to Article 44-bis of the Issuer Regulation, the shares that the Issuer will purchase in executing this resolution will be included in the share capital of the Issuer, on which the significant equity investment for the purpose of Article 106, paragraphs 1, 1-bis, 1-ter and 3 of the Consolidated Law on Finance (TUF) will be calculated;

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

- on 16 April 2019, the Board of Directors confirmed Ambrogio Caccia Dominioni as the Chief Executive Officer and Gianluca Bolelli as Vice Chairman.
  The Board of Directors decided to appoint:
  - the directors Simone Andrea Crolla (Chairman), Emanuela Teresa Basso Petrino and Caterina Caccia Dominioni as members of the new Remuneration and Appointments Committee;
  - the directors Emanuela Teresa Basso Petrino (Chairman), Simone Andrea Crolla and Guido Traversa as members of the Control and Risk, Sustainability and Related-Party Transactions Committee;
  - Caterina Caccia Dominioni as director in charge of the internal control and risk management system;
  - the Independent Director Paola Durante as Lead Independent Director;
  - Lorenzo Pascali (Chairman), Giampaolo Grasso and Stefano Chirico as members of the Supervisory Body that will remain in office until the shareholders' meeting that will be called to approve the financial statements for the year ended 31 December 2021;

- on 23 April 2019, Cerved Rating Agency, the Italian rating agency specialised in assessing creditworthiness of non-financial companies, confirmed the "B1.1" solicited rating of the Company. This result substantiates the financial soundness of Tesmec Group and is the result of an in-depth evaluation process that combines rigorous quantitative models to forecast credit risk and accurate qualitative analyses by the agency, which also considers the Company's competitive position in the industry;

- during June 2019, a tax audit by the Italian Inland Revenue 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 received reveal disputes with respect to which the Company, supported by the opinion of its tax advisors, considers its behaviour to be well-founded;

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

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

4. Overview of the financial results

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards (hereinafter the "IFRS" or the "International Accounting Standards"), which were endorsed by the European Commission, in effect as at 31 December 2019. The following table shows a summary of the main profit and loss indicators in 2019 and in 2018 and the main financial indicators as at 31 December 2019 and as at 31 December 2018.

2019	**OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures)**	**2018**
	Key income statement data (Euro in millions)	
200.7	Operating Revenues	194.6
27.4	EBITDA	18.9
13.7%	EBITDA %	9.7%
26.6	adj EBITDA	21.0
13.3%	adj EBITDA %	10.8%
3.0	Group Net Profit	0.0
	Tesmec S.p.A. (Euro in millions)	
4.2	Net result	4.3
	Key financial position data (Euro in millions)	
164.2	Net Invested Capital	121.0
46.2	Shareholders' Equity	43.3
118.0	Net Financial Indebtedness	77.7
19.9	Investments in property, plant and equipment, intangible assets and rights of use	13.8
910	Average headcount for the period	844

5. Group performance

Macroeconomic framework

The year 2019 was marked by trade tensions between the United States and China, which had an impact on the increase in tariffs and trade between the two Countries. A trade war that also had repercussions in Europe and the rest of Asia. The world economy, especially manufacturing activity, continued to slow down until the last quarter of the year, when signs of stabilisation were observed.
The American economy has taken a downturn. Unemployment fell below 4%, but signs of wage pressure remained limited. Inflation returned below 2% and the Federal Reserve responded to the risks of slowdown with three cuts in official rates.
In the Eurozone, growth weakened; industrial production decreased significantly in Germany, France and Italy; In particular, inflation fell below 1%, far from the European Central Bank's target, bouncing back only towards the end of the year.
The Italian economy remained in a phase of substantial stagnation. GDP growth is estimated to be just above zero with industrial production declining compared to a better performance in the construction and service sectors. The unemployment rate fell to 9.7% in November and inflation was 0.5% in December. The trend in public accounts was better than expected; the

deficit stood at 2.2% of GDP, but the debt-to-GDP ratio was still increasing. The spread of ten-year BTPs (long-term Italian Government Bonds) compared to German bonds of the same duration remained very high until mid-August, almost constantly above 200 basis points. The year 2020 started with the prospect of change; however, there was a drastic revision of estimates, given that the national and international scenario was characterised by the spread of the Covid-19 virus (known as Coronavirus) and the consequent restrictive measures also of production activities for its containment, implemented by the public authorities of the Countries concerned. The impact on the macroeconomic scenario will depend on the speed with which the virus containment measures are put in place and the liquidity injections that will be allocated to support the real economy by the various central banks and government investment programmes. There are various estimates of the overall impact. According to the Organisation for Economic Cooperation and Development (OECD), the Covid-19 epidemic will reduce global GDP growth by half a point. Bloomberg Economics forecasts zero GDP growth. The United Nations Trade and Development Agency states that the global economic slowdown caused by the coronavirus epidemic will cost at least USD 1 trillion. Scenarios of various kinds are also presented at national level, with estimates leading to GDP growth of more than 6%. In general, there will be a phase of recession and contraction of the economy, but with a probable recovery in the second half of the year and a strong recovery in 2021, thanks to investment plans and injections of liquidity, necessary to recover from a "war" context resulting from Covid 19.

5.1 General performance

The Group realised in 2019 revenues of Euro 200,666 thousand against a figure of Euro 194,611 thousand in 2018 recording an increase in activities in the Rail and Energy segments.

5.2 Performance by segment

- **Energy**
  The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded an increase in revenues by Euro 2,505 thousand (+6.0%) from Euro 41,739 thousand as at 31 December 2018 to Euro 44,244 thousand as at 31 December 2019. In particular, the Energy-Automation segment achieved revenues of Euro 12,308 thousand, an increase of 29.2% compared to Euro 9,528 thousand as at 31 December 2018, in line with the growth prospects for the year for this segment.

- **Trencher**
  Trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded revenues of Euro 125,306 thousand in line with revenues of Euro 125,454 thousand recorded as at 31 December 2018.
  During the period, the good performance of the American market and the start of business in the mining and 5G sectors in USA, Africa, UK and France, were confirmed.

- **Rail**
  Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 13.5% compared to the previous year. Revenues as at 31 December 2019 amounted to Euro 31,117 thousand compared to Euro 27,418 thousand of the previous year and the increase is attributable to the performance of the contracts in place with RFI and TEM FERRO on the French market.

5.3 Management performance of the main subsidiary and associated companies

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

- Tesmec USA Inc., a company that is 100% owned by Tesmec S.p.A., is based in Alvarado (Texas) and operates in the Trencher segment and in the rail sector. During 2019, the company generated revenues of Euro 37,795 thousand. These include service activities (rental without operator) of around 13.2%.

- Tesmec Rail S.r.l., a 100% subsidiary of Tesmec S.p.A., with registered office in Monopoli (BA), operates in the Rail sector. On 1 May 2019, the company merged Tesmec Service S.r.l. and, with a contract dated 19 June 2019 (effective as from 1 July 2019), rented a business unit of the company Advanced Measuring Group S.r.l. (AMG). During the 2019 financial period, it recorded revenues of Euro 29,912 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 an option of Tesmec S.p.A. to repurchase this shareholding interest). During the financial year, the company generated revenues of Euro 5,388 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 generated in 2019 revenues totalling Euro 8,615 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 2019, (with an option of Tesmec S.p.A. to repurchase this share at 30 June 2020). The French company, acquired on 8 April 2015, is the holding of an international group leader in the construction of machines for infrastructures and in services for telecommunications, electricity and gas. In the 2019 financial period, the Group generated consolidated revenues of Euro 50,057 thousand.

- Tesmec Automation S.r.l., a company 100% owned by Tesmec S.p.A., with registered office in Grassobbio (BG) and specialised in the design and sale of sensors, integrated fault detectors and measurement devices for medium voltage power lines. During the 2019 financial period, it recorded revenues of Euro 12,198 thousand.

6. Income statement and balance sheet situation as at 31 December 2019

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 are illustrated in order to allow a better assessment of the Group's operating performance. 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.

Since the results for the period compared with those for the previous year may include elements that make it difficult to make a comparison and that as a result might not allow a correct interpretation of the Group's profitability in the period compared with that of the previous year, the following alternative performance measure is also presented:

- adj EBITDA (or adjusted EBITDA): is represented by EBITDA net of elements of normalisation of profitability.
- Net working capital: is calculated as current assets net of current liabilities excluding financial assets and financial liabilities.
- Net invested capital: is calculated as net working capital plus fixed assets and other long-term assets less non-current liabilities.
- Net financial indebtedness: is calculated as the sum of cash and cash equivalents, current financial assets, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

6.2 Consolidated income statement

The Group closed the financial period as at 31 December 2019 with a positive operating income of Euro 8,374 thousand (Euro 3,677 thousand in 2018) and with a net profit of Euro 2,981 thousand compared to a net profit of Euro 44 thousand as at 31 December 2018. The following table shows the trend of major economic indicators as at 31 December 2019 compared to 31 December 2018.

(Euro in thousands)	Financial period ended 31 December 2019	% of revenues	2018	% of revenues
Revenues from sales and services	**200,666**	**100.0%**	**194,611**	**100.0%**
Cost of raw materials and consumables	(88,037)	-43.9%	(87,486)	-45.0%
Non-recurring cost of raw materials and consumables, net	-	0.0%	(1,595)	-0.8%
Costs for services	(35,038)	-17.5%	(32,581)	-16.7%
Non-recurring costs for services	(337)	-0.2%	-	0.0%
Payroll costs	(52,451)	-26.1%	(50,054)	-25.7%
Non-recurring payroll costs	(160)	-0.1%	(447)	-0.2%
Other operating (costs)/revenues, net	(5,980)	-3.0%	(11,282)	-5.8%
Non-recurring other operating (costs)/revenues, net	1,312	0.7%	-	0.0%
Amortisation and depreciation	(19,075)	-9.5%	(15,245)	-7.8%
Development costs capitalised	7,233	3.6%	7,592	3.9%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	241	0.1%	164	0.1%
Total operating costs	**(192,292)**	**-95.8%**	**(190,934)**	**-98.1%**
Operating income	**8,374**	**4.2%**	**3,677**	**1.9%h**
Financial expenses	(5,722)	-2.9%	(3,932)	-2.0%
Financial income	710	0.4%	284	0.1%
Foreign exchange gains/losses	808	0.4%	210	0.1%
Portion of losses/(gains) from the valuation of equity investments using the equity method	24	0.0%	67	0.0%
Pre-tax profit/(loss)	**4,194**	**2.1%**	**306**	**0.2%**
Income tax	(1,213)	-0.6%	(262)	-0.1%
Net profit/ (loss) for the period	**2,981**	**1.5%**	**44**	**0.0%**
Profit/(loss) attributable to non-controlling interests	14	0.0%	16	0.0%
Group profit/(loss)	**2,967**	**1.5%**	**28**	**0.0%**

Revenues

Total revenues as at 31 December 2019 increased by 3.1%.

(Euro in thousands)	Financial period ended 31 December 2019	% of revenues	2018	% of revenues	2019 vs 2018
Energy	44,244	22.0%	41,739	21.4%	2,505
Trencher	125,306	62.4%	125,454	64.5%	(148)
Rail	31,116	15.5%	27,418	14.1%	3,698
Total revenues	**200,666**	**100.0%**	**194,611**	**100.0%**	**6,055**

a) Revenues by geographic area

The Group’s turnover continues to be produced almost predominantly abroad and in particular, in non-EU countries. The revenue analysis by area is indicated below, compared with the 2019 financial period and the 2018 financial period, which indicates growth in Europe, Africa and North and Central America, partially balanced by the downtrends recorded in the BRIC and Others markets and in the Middle East.

It is emphasised that the segmentation by geographic area is determined by the country where the customer is located, regardless of where project activities are organised.

(Euro in thousands)	Financial period ended 31 December	
	2019	2018
Italy	47,985	49,306
Europe	40,040	34,465
Middle East	13,921	17,314
Africa	17,883	10,178
North and Central America	41,603	33,266
BRIC and Others	39,234	50,082
Total revenues	**200,666**	**194,611**

Operating costs net of depreciation and amortisation

(Euro in thousands)	Financial period ended 31 December			
	2019	2018	2019 vs 2018	% change
Cost of raw materials and consumables	(88,037)	(87,486)	(551)	0.6%
Non-recurring cost of raw materials and consumables, net	-	(1,595)	1,595	100.0%
Costs for services	(35,038)	(32,581)	(2,457)	7.5%
Non-recurring costs for services	(337)	-	(337)	100.0%
Payroll costs	(52,451)	(50,054)	(2,397)	4.8%
Non-recurring payroll costs	(160)	(447)	287	100.0%
Other operating (costs)/revenues, net	(5,980)	(11,282)	5,302	-47.0%
Non-recurring other operating (costs)/revenues, net	1,312	-	1,312	100.0%
Development costs capitalised	7,233	7,592	(359)	-4.7%
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method	241	164	77	47.0%
Total operating costs net of depreciation and amortisation	**(173,217)**	**(175,689)**	**2,472**	**-1.4%**

The table shows a decrease in operating costs of Euro 2,472 thousand (-1.4%) inversely proportional to the increase in sales (+3.1%).

Among the cost items, note that non-recurring other operating (costs)/revenues, net include non-recurring revenues relating to the insurance refund for an event that had an economic impact in 2018. Note that in the 2018 financial period the first part of the insurance refund of Euro 287 thousand was already allocated. The total amount paid is Euro 1,624 thousand (collected in July 2019).
Non-recurring costs of Euro 522 thousand (costs for services of Euro 337 thousand, payroll costs of Euro 160 thousand and other operating costs of Euro 25 thousand) relating to reorganisation costs in the Marais Group are also present.
Other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Group in Italy and France during the financial period for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Decreto Destinazione Italia" (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014). 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 2,542 thousand for 2019 whereas it amounted to Euro 2,894 thousand for 2018, 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, EBITDA amounts to Euro 27,449 thousand, which represents 13.7% of the sales for the period, compared to 9.7% recorded in 2018.

As described in the previous paragraph, the 2019 financial period includes a component of Non-recurring other operating (costs)/revenues, net of Euro 1,312 thousand, and Non-recurring costs for services of Euro 337 thousand, in addition to non-recurring payroll costs of Euro 160 thousand. The 2018 financial period included a component of net non-recurring costs for raw materials of Euro 1,595 thousand, in addition to Euro 447 thousand for non-recurring payroll costs. Without considering these effects, the EBITDA for 2019 would have been 13.3% whereas during 2018, it would have been 10.8%.
They were separately shown when calculating the EBITDA.

	Financial period ended 31 December				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Operating income	8,374	4.2%	3,677	1.9%	4,697
+ Amortisation and depreciation	19,075	9.5%	15,245	7.8%	3,830
EBITDA (*)	**27,449**	**13.7%**	**18,922**	**9.7%**	**8,527**
+ Non-recurring costs and revenues	(815)	-0.4%	2,042	1.0%	(2,857)
adj EBITDA (*)	**26,634**	**13.3%**	**20,964**	**10.8%**	**5,670**

(*****) The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by Tesmec Group on these indicators.

Since the results for the period compared with those for the previous year may include elements that make it difficult to make a comparison and that as a result might not allow a correct interpretation of the Group's profitability in the period compared with that of the previous year, the following alternative performance measure is also presented:

adj EBITDA (or adjusted EBITDA): is represented by EBITDA net of elements of normalisation of profitability that can be grouped in the following cases:
- net costs for non-recurring raw materials incurred in 2018 and related insurance refund recognised in the 2019 financial period;
- costs incurred for corporate reorganisations.

Operating Income

	Financial period ended 31 December				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Stringing equipment	(545)	-0.3%	(56)	0.0%	(489)
Trencher	7,453	3.7%	2,295	1.2%	5,158
Rail	1,466	0.7%	1,438	0.7%	28
Total operating income	**8,374**	**4.2%**	**3,677**	**1.9%**	**4,697**

The operating income as at 31 December 2019 stood at Euro 8,374 thousand (4.2% of revenues) up compared to Euro 3,677 thousand (1.9% of revenues) achieved as at 31 December 2018.

Financial Management

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Net financial income/expenses	(5,039)	(3,702)
Realised foreign exchange gains/losses	(74)	(177)
Unrealised foreign exchange gains/losses	882	387

Fair value adjustment of derivative instruments	27	54
Portion of losses/(gains) from the valuation of equity investments using the equity method	24	67
Total net financial income/expenses	**(4,180)**	**(3,371)**

The net financial management decreased compared to the same period of the previous financial period by Euro 809 thousand; we report the following changes:

- improvement by Euro 598 thousand of foreign exchange gains/losses that resulted in the recording of net profits totalling Euro 808 thousand in the 2019 financial period (Euro 882 thousand unrealised and Euro -74 thousand realised) against net profit of Euro 210 thousand in the 2018 financial period;
- overall worsening of Euro 1,337 thousand in net financial income and expenses resulting for Euro 381 thousand from higher interest expense on medium/long-term loans, and for Euro 710 thousand from the recognition of financial expenses recorded in the 2019 financial period against the first-time adoption of IFRS 16 from 1 January 2019 and therefore not recorded in the 2018 financial period.

Net result

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Net profit (loss)	**2,981**	**44**
% Effect on revenues	1.49%	0.02%
Profit/(loss) attributable to non-controlling interests	14	16
Group net profit/(net loss)	**2,967**	**28**
% Effect on revenues	1.48%	0.01%

Profit for the period amounted to Euro 2,981 thousand (Euro 44 thousand in 2018) after deducting negative taxes totalling Euro 1,213 thousand (positive taxes totalling Euro 262 thousand in 2018).
Net of the portion attributable to non-controlling interests, the net result is Euro 2,967 thousand.

Profitability ratios

		Financial period ended 31 December	
Ratio	*Composition*	**2019**	**2018**
Return on sales (R.O.S.)	Operating income / Net revenues	4.2%	1.9%
Return on investment (R.O.I.)	Operating income / Invested capital	5.1%	3.0%
Return on equity (R.O.E.)	Net income / Shareholders' equity	6.5%	0.1%
Invested capital turnover	Net revenues / Net invested capital	1.22	1.61
Working capital turnover	Net revenues / Net working capital	2.75	3.98
Debt ratio / Adj. EBITDA	Net financial indebtedness / Adj. EBITDA	4.43	3.71
Debt ratio / EBITDA	Net financial indebtedness / EBITDA	4.30	4.11
Debt ratio	Net financial position / Shareholders' equity	2.56	1.79

The table above shows concisely the main trends that characterised the financial statements of the Group as at 31 December 2019 compared to 31 December 2018. The ratios reflect the improvement in operating margins and the trend in working capital on which the progress of job orders and the increase in trade receivables in the rail segment have had an impact. The debt ratios are affected by the trend in working capital.

6.3 Income Statement by segment

Revenues by segment

The tables below show the income statement figures as at 31 December 2019 compared to those as at 31 December 2018, broken down into three operating segments.

	Financial period ended 31 December				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Energy	44,244	22.0%	41,739	21.4%	2,505
Trencher	125,306	62.4%	125,454	64.5%	(148)
Rail	31,116	15.5%	27,418	14.1%	3,698
Total revenues	**200,666**	**100.0%**	**194,611**	**100.0%**	**6,055**

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

	Financial period ended 31 December				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Energy	44,789	22.3%	41,795	21.5%	2,994
Trencher	117,853	58.7%	123,159	63.3%	(5,306)
Rail	29,650	14.8%	25,980	13.3%	3,670
Total operating costs	**192,292**	**95.8%**	**190,934**	**98.1%**	**1,358**

Operating costs, including depreciation and amortisation, were up 0.7% compared to the prior period in a less than proportional way compared to the sales trend (3.1%), for the reasons already set out in paragraph 6.1 above.

The tables below show the EBITDA as at 31 December 2019 compared to those as at 31 December 2018, broken down into three operating segments:

	Financial period ended 31 December				
(Euro in thousands)	**2019**	**% of revenues**	**2018**	**% of revenues**	**2019 vs 2018**
Energy	5,590	12.6%	4,818	11.5%	772
Trencher	16,646	13.3%	9,982	8.0%	6,664
Rail	5,213	16.8%	4,122	15.0%	1,091
EBITDA (*)	**27,449**	**13.7%**	**18,922**	**9.7%**	**8,527**

(*****) The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by Tesmec Group on these indicators.

Margins increased in absolute terms by Euro 8,527 thousand (from Euro 18,922 thousand in 2018 to Euro 27,449 thousand in 2019) and in percentage terms to 13.7% in 2019 from 9.7% in 2018. This result is the combined effect of trends that can be explained better segment by segment:

- Energy: the margin, as a percentage of revenue, rose to 12.6% in 2019, compared to 11.5% recorded in 2018. In particular, the Energy-Automation segment achieved revenues of Euro 12,308 thousand, an increase of 29.2% compared to Euro 9,528 thousand as at 31 December 2018, in line with the growth prospects for the year for this segment.

- Trencher: the margin, as a percentage of revenue, rose to 13.3% in 2019, compared to 8.0% recorded in 2018. The change is due to the performance of the American market and the start of business in the mining and 5G sectors, in the following areas: USA, Africa, UK and France, and the Australian market, where the Group is focusing on a smaller number of projects.

- Rail: the margin, as a percentage of revenue, rose to 16.8% in 2019, compared to 15.0% recorded in 2018. The improvement is due to the performance of the existing contracts with RFI and with TEM FERRO on the French market.

6.4 Balance sheet and financial profile

The financial position of the Group as at 31 December 2019 compared to 31 December 2018 is briefly shown in the table below.

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
USES		
Net working capital (*)	73,023	48,897
Fixed assets	86,947	67,314
Other long-term assets and liabilities	4,219	4,804
Net invested capital (*)	**164,189**	**121,015**
SOURCES		
Net financial indebtedness (*)	118,037	77,677
Shareholders' equity	46,152	43,338
Total sources of funding	**164,189**	**121,015**

***** The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by Tesmec Group on these indicators.

A) Net working capital

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Trade receivables	67,929	52,562
Work in progress contracts	16,320	11,023
Inventories	69,924	62,576
Trade payables	(57,514)	(54,350)
Other current assets/(liabilities)	(23,636)	(22,914)
Net working capital (*)	**73,023**	**48,897**

***** The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.

The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by Tesmec Group on these indicators.

The Net working capital of Euro 73,023 thousand increased by 49.3 % compared to 31 December 2018 despite the 3.1% increase in sales achieved during the same period. This trend is mainly due to the increase in "Trade receivables" of Euro 15,367 thousand (29.2%) and in "Work in progress" of Euro 5,297 thousand, on which the progress of job orders in the rail segment and the increase in trade receivables relating to the latest agreements signed in this segment, close to the end of the financial period, have had an impact.
Net working capital is expected to be reabsorbed during 2020 in relation to normal trend of rail supplies.

B) Fixed assets

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Intangible assets	20,419	17,998
Property, plant and equipment	42,397	45,337
Rights of use	20,144	-
Equity investments in associates	3,984	3,976
Other equity investments	3	3
Fixed assets	**86,947**	**67,314**

Total *fixed assets* recorded a net increase of Euro 19,633 thousand mainly due to the increase in “Rights of use” of Euro 20,144 thousand. This item represents the effect of the recognition of a right of use, as envisaged by IFRS 16, for contracts previously accounted for as operating leases in line with the provisions of IAS 17.

C) Other medium to long-term assets and liabilities

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Financial receivables and other non-current financial assets	2,749	1,922
Non-current trade receivables	516	831
Deferred tax assets	11,889	11,816
Employee benefit liability	(4,451)	(3,770)
Other long-term liabilities	(625)	-
Non-current trade payables	-	(1)
Deferred tax liabilities	(5,771)	(5,927)
Non-recurring provisions for risks and charges	(88)	(67)
Other long-term assets and liabilities	**4,219**	**4,804**

Medium to long-term assets and liabilities decreased by Euro 585 thousand from Euro 4,804 thousand as at 31 December 2018 to Euro 4,219 thousand as at 31 December 2019.

D) Net financial indebtedness

(Euro in thousands)	Financial period ended 31 December			
	2019	***of which with related parties and group***	**2018**	***of which with related parties and group***
Cash and cash equivalents	(17,935)		(42,793)	
Current financial assets	(12,083)	*(4,072)*	(10,391)	*(4,373)*
Current financial liabilities	79,764	*2,158*	80,504	*2,325*
Current financial liabilities from rights of use	4,135		-	
Current portion of derivative financial instruments	6		-	
Current financial indebtedness (*)	**53,887**	***(1,914)***	**27,320**	***(2,048)***
Non-current financial liabilities	48,737	-	50,322	-
Non-current financial liabilities from rights of use	15,407		-	
Non-current portion of derivative financial instruments	6		35	
Non-current financial indebtedness (*)	**64,150**	**-**	**50,357**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 (*)	**118,037**	***(1,914)***	**77,677**	***(2,048)***
Current financial liabilities from rights of use	(4,135)		-	
Non-current financial liabilities from rights of use	(15,407)		-	
Net financial indebtedness before IFRS 16	**98,495**	***(1,914)***	**77,677**	***(2,048)***

* The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by Tesmec Group on these indicators.

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.

The net financial indebtedness as at 31 December 2019 increased by Euro 40,360 thousand compared to the figure at the end of 2018; this increase of Euro 19,542 thousand refers to the mere application of the new IFRS 16 and therefore represents a debt related to the commitments deriving from lease contracts in accordance with IFRS 16.
Without the adoption of IFRS 16, net financial indebtedness as at 31 December 2019 would amount to Euro 98,495 thousand, an increase of Euro 20,818 thousand compared to the end of 2018, mainly related to the increase in net working capital referred to above. Note that, as at 31 December 2019, *financial liabilities from rights of use* include Euro 1,362 thousand of residual payables relating to finance leases already recognised as components of net financial indebtedness in previous financial periods, in accordance with the previous IAS 17 standard. Therefore, without considering the adoption of IFRS 16 to operating leases only, net financial indebtedness as at 31 December 2019 would be Euro 99,857 thousand.

The table below shows the breakdown of the changes:

- increase in current financial indebtedness of Euro 26,567 thousand due to the:
  - decrease in current financial liabilities of Euro 740 thousand mainly due to (i) Euro 1,971 thousand relating to the decrease in the current portion of medium/long-term loans, (ii) Euro 1,963 to the decrease in advances on export, net of (iii) Euro 4,000 thousand relating to the reclassification of the current portion of the loan due to SIMEST;
  - decrease in current financial assets and cash and cash equivalents of Euro 23,166 thousand;
  - increase in current financial liabilities from rights of use in accordance with IFRS 16 of Euro 4,135 thousand relating to the recognition of lease contracts in accordance with IFRS 16;

- increase in medium/long-term financial indebtedness of Euro 13,793 thousand relating to the recognition of non-current financial liabilities from rights of use in accordance with IFRS 16 of Euro 15,407 thousand.

E) Shareholders' Equity

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Share capital	10,708	10,708
Reserves	32,427	32,567
Profit (loss) for the period	2,967	28
Non-controlling interests	50	35
Shareholders' equity	**46,152**	**43,338**

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

In the 2019 financial period, the major changes were due to the decrease for change in the consolidation area; the difference of Euro 436 thousand relating to the deconsolidation of Marais Tunisie SA was offset by the increase in the translation reserve of Euro 694 thousand.

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

	Financial period ended 31 December	
(Euro in thousands)	**Shareholders' Equity**	**Net result**
Amounts resulting from the financial statements of Tesmec S.p.A.	**55,845**	**4,233**
Consolidation adjustments		
a) Equity investments evaluated using the equity method	1,550	265
b) Difference between book value and assets of consolidated equity investments	(14,836)	-
c) Results from consolidated equity investments	463	463
d) Translation reserve	5,028	-
e) Elimination of dividends distributed by Companies of the Group	(1,500)	(1,500)
f) Elimination of intra-group items	(448)	(494)
Net effect of consolidation adjustments	*(9,743)*	*(1,266)*
Amounts attributable to the Group	**46,102**	**2,967**

F) Investments

Investments include capitalisations relevant to development projects (Euro 9,483 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 rather changes to the laws and regulations currently in force in areas where the Group operates, even internationally, could force the Tesmec Group to adopt stricter standards or influence its freedom of action in its areas of activity.
These factors could result in adjustment costs of production structures or of product characteristics, or even limit the operations of the Group with a subsequent negative effect on its activity and on its economic and financial situation.
Therefore, any change to the standards or regulatory criteria currently in force, as well as the occurrence of exceptional or unforeseeable circumstances, could force the Group to incur extraordinary expenses in environmental matters. These expenses could be significant and thus have adverse effects on the activity and the economic and financial situation of the Group. For more details on the subject of safety, environment and work, reference is made to the relevant paragraph.

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

In this paragraph, we outline the risk factors and uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on price risk, financial risk management, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks are set out below. This description is valid for the Tesmec Group, even if the risk management policy is decided by the Parent Company.
Tesmec implemented a mechanism for constantly monitoring these risks in order to prevent their potential negative effects and take the actions necessary to contain them.

The Group operates in a sector that is less sensitive than others to fluctuations in the general economic cycle as it is related to infrastructure investments that are based on a medium to long-term time horizon and are strategic for the development of the countries in which they are planned. Despite the fact that 2020 was born with a stable and positive outlook, there was a drastic revision of estimates, given that the national and international scenario was characterised by the spread of the Covid-19 virus. Therefore, new changes and/or sudden trend reversals cannot be excluded, with consequent uncertainty about future projections, and the risk that a slowdown in the collection or processing of orders or work in progress will have a direct impact on margins in the short term, due to the fixed component of the Group's cost structure.
With regard to these changes, it is not currently possible to exclude possible consequences determined by the global uncertainty caused by the spread of the Covid-19 virus at the beginning of 2020, for which the Group believes it has sufficient resources to meet the needs of the foreseeable future.

Management and types of risk

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

The Group 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.

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

Type of risks and hedging instruments used

Exchange rate risk

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

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

With regard to net exposure that is mainly represented by loans in US Dollars of Tesmec S.p.A., a distinction must be made between trade receivables and intercompany financial receivables. For financial receivables, the Parent Company assumes the exchange rate risk in respect of its subsidiaries. On the other hand, for trade contracts, the forward buying of the American currency is adopted as the only hedging instrument. However, these hedges are carried out only for one part of the total exposure in that the timing of the inflow of the receipts in dollars is difficult to predict at the level of each sales invoice. Besides, for a good part of the sales in dollars, the Group uses the production of the American factory with costs in US dollars by creating in this way a sort of natural hedging of the currency exposure.

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

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

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

Credit risk

For the Group, credit risk is closely linked to the sale of products on the market. In particular, the extent of the risk depends on both technical and commercial factors and the purchaser's solvency.
From a commercial viewpoint, the Group is not exposed to high credit risk insofar as it has been operating for years in markets where payment on delivery or letter of credit issued by a prime international bank are usually used as payment methods. For customers located in the European region, the Group mainly uses factoring without recourse. The provisions for doubtful accounts are considered to be a good indication of the extent of the overall credit risk.

Price risk

In general, price risk is linked to the fluctuation of commodity prices.
Specifically, the price risk of the Group is mitigated by the presence of many suppliers of raw materials as well as by the need to receive absolute guarantees on supply volumes, in order not to affect the warehouse stock.
In reality, this risk seems remote for two fundamental reasons:
1. the existence and use of alternative suppliers;
2. the assortment of raw materials and components used in the production of the Tesmec machinery: it is unlikely for all of them to be affected by increasing price tensions at the same time.
In particular, in the current market situation, this risk seems particularly weakened by the situation of oversupply in many markets. However, in view of the current health crisis characterised by the spread of the Covid-19 virus, the Group cannot exclude that future price changes in these markets could have a negative impact on results.

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 average cost of indebtedness is benchmarked to the trend of the 1/3-month Euribor rates for short-term loans and the 3/6-month Euribor rates for medium to long-term loans. Some interest rate hedges have been set in place for floating medium/long-term loans.
Existing 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. With regard to the final values in the 2019 financial period, in one case a financial parameter was not complied with, leading to a short-term reclassification of the related debt of Euro 500 thousand.

Risks related to transactions with suppliers

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

9. Human Resources, Training and Industrial Relations

9.1 Strategy

The Tesmec Group has among its objectives the creation of value and has supported the strategy by defining a new model of improvement and strengthening of human and organisational capital, through the following clusters of intervention:

- design of EFFECTIVE AND DIGITAL processes and organisational structures;
- PERFORMANCE EVALUATION (incentive and evaluation path);
- Training Evolution (training);

The Digitalisation Process
The Group has a strategic vision to invest in innovation and differentiating elements of Tesmec.
The need to renew the current ERP system has emerged by adopting a technologically innovative platform at Group level with the transition to DYNAMICS 365.
To support growth, it is necessary to improve the overall level of compliance in an increasingly regulated and bureaucratically complex environment.
The Change Management project allows to enable digital transformation and direct the decision on the following elements:

- Harmonisation
- Simplification
- Effectiveness and Efficiency

In order to obtain:

- a Global organisation, by harmonising and simplifying business processes;
- greater efficiency and effectiveness in business processes;
- scalability of opportunities;
- a unique version of the information to support the choices.

Digitalisation of resources
People must have a fresh and young spirit, they must be able to get excited about important projects.
The company needs people who have in their hearts that naive joy that brings positivity to absolute value, people who, even during the worst season, in the middle of winter, in the storm, always feel the scent of spring that is coming.

Tesmec is investing in training and assessment processes.

Used model:

EXPECTED SKILL

What the organisation expects

<u>Role profile</u>: what skills are required and to what extent

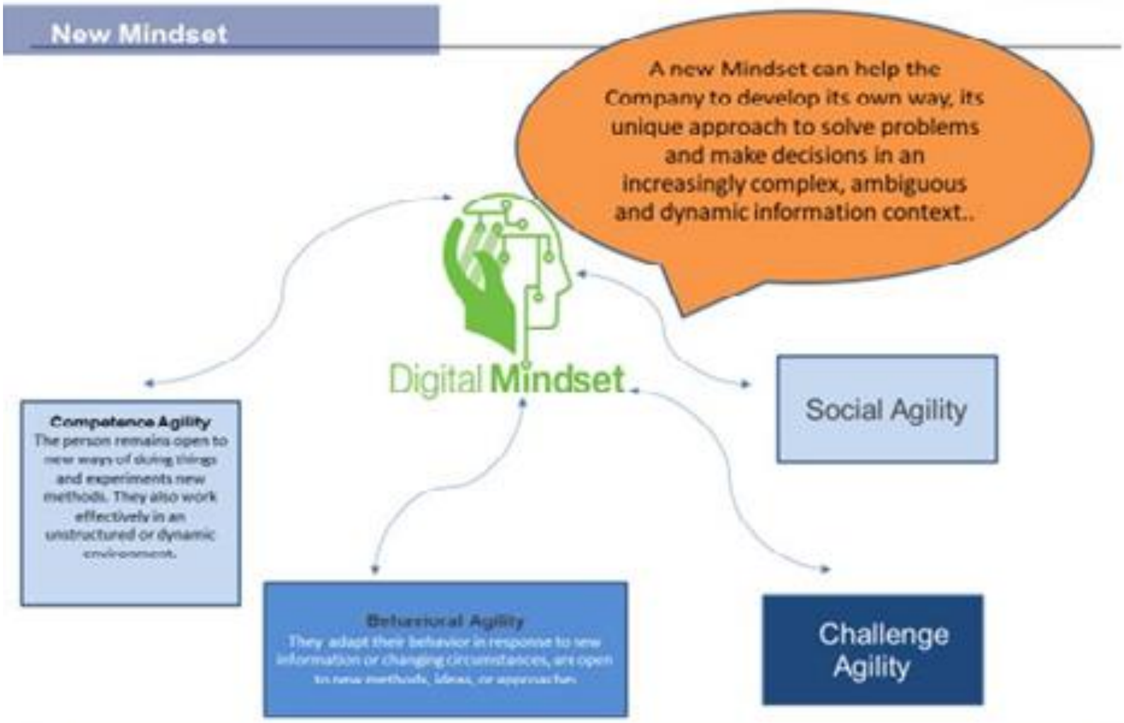
The different levels of Skills expected by the organisation for each position refer to the following areas of competence:

- Curiosity to learn
- the TEAM spirit
- Need of positive approach: learn from mistakes, but think positive "NEXT POINT"
- Emotion and passion for product and technology!
- The creation of something new
- Satisfy the customer
- Important of HOW, not only WHAT
- Continuous searching for excellence
- the company value speed

Expectations

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

SPEED
PERFORM your ENTHUSIASM



Tesmec Performance Management

A performance appraisal and analysis programme was launched in 2019 through a one-to-one comparison between the employee and the area-function manager for analysing the achievement of the targets for the previous years and for sharing the targets for the following year.

Targets of the Evaluator

- make the most of the new performance management system;
- know what and how to assess;
- train yourself in the optimal management of your employee's development interview.

Targets of the Evaluated

- Define your own targets and performance levels;
- identify areas of strength and areas for improvement by providing input on how to improve your performance;
- define action plans to achieve the objectives set.
-

What we measure

- *"Skills* - soft skills": full capacity, "what" allows an individual an excellent performance, harmonic combination of attitude, finalised experience and motivation;
- “behaviour - what I see”: manifestation and expression of proficiency;
- “performance - results achieved”: deals with the contents and manner in which the person in a certain role performs the tasks of the position over a given period of time;
- “potential”: from an organisational point of view, it is the comparison between an individual's skills and the skills required to best cover a target position. Predictive of success in the new role;
- “qualitative objectives - development objectives”: they define how, for example behaviour and skills.

Why is it important?

- It recognises the results achieved;
- It improves employee performance;
- It highlights the strengths and development of employees;
- It defines the new targets;
- It offers an opportunity for two-way communication;
- It supports employee career development.

9.2 Employees

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 2019, 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 Internal Audit, created strong support for TOP Management also to speed up the carrying-out of the group's strategic choices.

Tesmec needs and it is in its interest to ensure a new model of recruitment, participation, assessment of human resources for the ability to adapt to the continuous changes in the market.

In 2019, Tesmec Group has further strengthened - in terms of human capital - the employment trend both nationally and internationally in new business models (contracting and rental) as well as further growth in the rail division.

In 2019, driven by the new Monopoli factory, we were able to support the increase in production lines and new product developments with the inclusion of resources in production, full maintenance service and engineering.

In addition to the new production site in Monopoli, in the territory of Apulia the lease of the business unit from the company AMG S.r.l., consisting of 8 resources as part of the diagnostics in the new Bitetto pole, has been finalised. From the company AMG we have acquired software, analogue and digital hardware, intertidal, optical and laser measurement systems and image analysis and telecommunications devices. Our team is thus composed of computer and electronic engineers, technicians and graduates able to easily manage any type of technology.

Our research and development team consists of:

- System development team: able to build high-level architectures, rail measurement systems, telecommunications, computer vision, industry control and automation;
- Hardware and firmware development team: able to build from scratch microelectronic devices based on micro-controllers, DSP, FPGA, CPLD, PLC, to connect to any type of sensor or other system;
- Software development team: able to design and develop any kind of software, such as analysis, HMI, data storage and management, real-time acquisition and analysis. Our team works with many languages like C, C ++, C #, Java, SQL, Visual Basic, Labview, .net, matlab; we develop on Windows, Linux, OSX and on smartphones and tablets (Android and iOS).
- Design and production team: able to design prototypes and carry out series production cycles, as well as to select and design mechanical parts and cases. All work follows ISO 9001 quality standards.

During 2019, the Tesmec Group maintained and 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 objectives of implementing and aligning the methods, processes, information flows, synergies between the different business functions of all Tesmec companies;
- consolidation of the organisational structure of all the Group's foreign subsidiaries, which were strengthened in 2019 at managerial and decision-making level. All foreign companies are functionally linked to the parent company's staff functions through a process of finalisation of skill matrices and Chart organisations.

Human capital, expression of the Company's key growth factor, focuses on value and the ability to create value by looking for skills and talent in human resources that are key to meeting the challenges of the future.

The data processed in 2019 show a strong improvement compared to previous years and in particular the indicators at Group level, also thanks to the consolidation of foreign companies:

- turnover rate of new hires from 19.35% in 2018 to 16.26% in 2019 as Group average;
- stability rate within two years from 86.33% in 2018 to 85.96% as Group average;
- stability rate within five years, down for the turnover due to pension outflows and the volatility of the youth force, from 67.12% in 2018 to 64.66% in 2019 as a Group average.

During the 2019 financial period, the Group had an average of 910 employees (844 in 2018), confirming the international vocation of our Group and a further enhancement of new technologies and new business models to which we allocated part of our investments in Human Resources. The following changes occurred in the average workforce employed by the Group in 2019 compared to 2018:

	Financial period ended 31 December			
(average no. of employees)	**2019**	**2018**	**2019 vs 2018**	**%**
Tesmec S.p.A.	360	343	17	4.96%
Tesmec Rail S.r.l.	98	60	38	63.33%
Tesmec USA, Inc.	93	83	10	12.05%
Tesmec SA (Pty) LTD	20	16	4	25.00%
OOO Tesmec RUS	8	5	3	60.00%
Tesmec Automation S.r.l.	60	56	4	7.14%
Tesmec New Technology Beijing LTD	3	3	-	0.00%
Groupe Marais	145	149	(4)	-2.68%
Tesmec Austrlia Pty (Ltd) (former Marais Laying Technologies (Pty) Ltd. Australie)	32	32	-	0.00%
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	69	72	(3)	-4.17%
Marais Cote d'Ivoire	19	24	(5)	-20.83%
Marais Trenching (Pty) Ltd. AFS	1	1	-	0.00%
MIR SA	2	-	2	100.00%
Total	**910**	**844**	**66**	**7.82%**

There was an overall increase of 8% in Human Resources in 2019, with an average of 66 people, in relation to the pursuit of the company strategy in the search for new technology businesses (rail diagnostics, the entire Service chain both at rail and earthmoving level, together with the strengthening of the site management area) in the precise figure of HC as Full Total Employees; in 2019, 50 resources were hired throughout the national and international context.

1) 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 41 (workers 43, employees 40 of which 41 for women) and foreign companies with an average age of 42 (workers 41, employees 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 schooling 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 2019 and the growth and investment trends in the previous 5 years showed an increased percentage of age groups under 35 following the need to create a pool of young and enterprising people, more easily adaptable to the new philosophy of a "digital thinking and approach".

AGE	2019	2018
< 24	7%	5%
25-34	29%	26.1%
35-44	29%	27.7%
45-54	22%	26.8%
>55	13%	14.4%

2) Digital Transformation

TESMEC broadened further the process and path of innovation of its processes, behaviour and technologies through training, evaluation and assessment initiatives for the growth of human resources, through the strengthening of distinctive skills and the attraction of young talents with high potential. The digital transformation of processes cannot leave a targeted qualification of human resources out of consideration.
This process serves to better face the competitive challenges of the next few years and to take full advantage of the opportunities arising from the new production paradigms of digital transformation, which requires new roles and skills (as well as the loss of as many tasks) to be developed within the organisation or to be sought outside it.

The cross tool for all the Business Units of the Group to pursue these objectives is the DT-LAB (Digital Transformation - Living Academy for Business) which will act as a pool of training and innovation projects oriented towards the 4.0 scenario.

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

3) Employer Branding

During 2019, Partnerships with technical schools, I.T.S. (post-graduate specialisation) and universities of engineering and architecture in Bari, Cassino, Padua and Milan were 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 through:
- presentations and Vocational Guidance in the main technical and professional institutes of the territory, with the participation of company representatives;
- selection of the best candidates, through Assessment Centres in the company.

Moreover, an internal campaign was implemented through press releases and newsletters and programmes to encourage continuous improvement at the international level to increase the sense of belonging within the Tesmec group.
- It is important to share a model of corporate values that can inspire activities, relationships with colleagues, customers, internal and external partners;
- Tesmec defined a model of Company Values that should inspire all personnel to continue to improve, innovate and believe in our potential;
- the values that represent a new Group culture are: ***S*** Safety**,** ***P*** Performance**,** ***E*** Empowerment, ***E*** Engagement**,** ***D*** aDaptability.

During 2019, the initiative called "Speed Awards" was confirmed: a campaign to encourage and enhance the value of skills with a view to involving people more closely in company life to improve awareness among all its employees.

i. **High accelerator Speed**
   - best Special Idea;
   - best Project Speed;
   - best Individual Performance.

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

iii. **High people speed**
   - best Culture Speed;
   - team Integration.

Each employee suggested a colleague as a candidate, who may also belong to a different department/office, by filling in the appropriate form “Speed Award 2019 - Speed People”.

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

Tesmec needs to make a cultural leap to fully exploit the full potential of welfare initiatives and for this reason it has decided to strengthen the company's Flexible Benefit platform by financing an annual amount for employees. Welfare - in a perspective that goes beyond the question of benefits provided by the company, i.e. that of Corporate Social Responsibility - is becoming the tool on which to base company strategies. On the one hand, welfare as a "piece" of a Human Resources management policy; on the other, welfare related to Corporate Social Responsibility (CSR). The recent development of the "welfare" phenomenon presents us with the analysis of a two-faced welfare: in the first case, we are in the field of goods and services and it is a welfare that offers answers to the shortcomings of the Welfare State (first welfare); in the second case, the one related to CSR, becomes a tool to make concrete corporate strategies because it merges with the identity of the organisation itself.

Tesmec concluded a phase of analysis and expansion of the entire Welfare platform both with internal support (employee proposals) and with the Welfare Provider. Tesmec needs to make people feel good, which means creating well-being both in the organisation and in people's lives - not as two non-communicating elements but as a whole. Creating well-being means allowing people, through a series of services and supports, to live a better work experience and this in turn increases people's motivation and sense of engagement. Tesmec added within the Welfare platform for the 2019 financial period for all employees new packages that envisaged through a dedicated Web Platform an increase and improvement of services and conventions for different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage also through new workshops:

- **Mastermamma**: currently there is a video course on the platform for parents and children (pregnancy, raising children, parenting, adolescence);
- **Workshop Work-Life Balance**: tools and techniques for a more balanced management of one's professional and private life;
- **Workshop Parenting**: coaching techniques to support parent-child relationship.

Agreement with obstetric, osteopathic, rehabilitative doctor's surgery.

Manpower: training pills have been added to the e-learning formula:

- Personal communication
- Work stress on well-being
- Success Team
- Digital Skills
- Creativity, Innovation and Change
- Improve your company

In addition to language schools, the following have been added:
Baby bonus: for the baby bonus, you will be able to claim the following refunds:

- Refund of education expenses
- Refund of welfare expenses
- Ticket compliments
- Ticket welfare

Wedding Bonus: for the wedding bonus, you will be able to claim the following refunds:

- Mortgages
- Refund of welfare expenses (in case of a spouse who is not self-sufficient or needs support)
- Ticket compliments
- Ticket welfare

The inclusion of the "Company Factotum" is being finalised.

5) Resource training and professional development

Ongoing Training was regulated within the CCNL (Contratto Collettivo Nazionale di Lavoro, Collective National Labour Agreement) of 26/11/2016 for the metal and engineering industry - Article 7, Section Four, Title VI. Tesmec involved in 2019 all employees with training plans of a minimum total duration of 24 hours.

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.

White Collar
The future is now
change because the world changes
The new skills:
Flexibility and Capability to innovate
Safe behaviour
Privacy & Data Protection
Cyber Security
Fundamentals of communication

Blue Collar
Change because the world changes
Industry 4.0 and Cyber Security
Quality
Safe behaviour
Fundamentals of communication

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

- operating a plan for the development and qualification of human resources with specific training courses;
- identifying technological solutions, methodologies and organisational models for a better management of business processes;
- analysing process aspects, organisational aspects and technical/functional aspects with the aim of accompanying TESMEC resources in the required cultural change and facilitating the adoption of a new approach and thinking method.

9.3 Health, safety and environment

Tesmec considers the protection of the workers' health and safety and the protection of the environment of fundamental importance and pursues these goals in compliance with all current specific regulations, as well as with the structuring of a service inside each factory that manages and controls the subjects at issue. The service is coordinated by the QHSE manager in collaboration with the appointed RSPP.
As a result of the above, Tesmec S.p.A. was awarded the 14001 and 45001 certifications in 2018 and all the other Italian companies of the group in 2019. These certifications sanction the implementation of an effective integrated system in the field of Quality, Safety and Environment.
The involvement of all employees, increased awareness and dissemination of the "safety culture" are considered to be decisive aspects for the achievement of the objectives of protection of the workers. Training is considered to be an important instrument, and is planned according to a precise timetable, based on strict technical standards and in compliance with the Italian State-Region Conference of 21/12/2011, implementing Article 37 of Italian Legislative Decree 81/2008.
During 2019, the internal service activities in order to prevent and protect against risks continued, through inspections on a quarterly basis of all production site departments, checking that the improvement actions had been started. All this within the system of procedures for managing aspects impacting on safety and the environment, now widespread in all the functions involved.
In accordance with the new Safety and Environment System, a mechanism called FIND & FIX was implemented to maximise the sharing and resolution of unsafe situations for people and the environment. The search for solutions to implement in order to eliminate or reduce risks is shared with the business departments that must implement these specific measures to ensure their acceptance by the workers and efficient application.
As a result, periodic Safety Talk and Safety Monthly Meetings have been set up in each factory, involving all employees.
During 2019 as well, the significant indicators (including frequency and severity) of occupational safety and health were monitored on a regular basis with statistical trend analyses, by reporting an improvement in the results achieved in previous years.
A precise system of environmental and safety authorisation was set up, assigned to the operating managers of the factories; they were trained through specific courses relating to Italian Legislative Decree 81/2008 for ASPPs or managers.

10. Related parties transactions

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

Relations with the related party MTS and its American subsidiary MTS4 Service continued during the 2019 financial period based on the agreements signed on 27 October 2017, which involved the sale of a further 11 trencher machines for a total of Euro 9.7 million, revenues from ancillary services of Euro 1.4 million and costs for rental activities of Euro 3.2 million.

As at 31 December 2019, a total of 42 machines had been sold since 2017 for a total value of Euro 32.8 million, of which Euro 31.8 million had been collected; Revenues from ancillary services amounted to Euro 1.9 million, of which Euro 0.4 million were collected, while costs for the rental business totalled Euro 7.0 million, of which Euro 4.3 million were paid. Compliance with the original agreements was supervised by the Control, Risk and Sustainability Committee, in its function as Related Party Transactions Committee.

During the 2019 financial period, no other significant transactions with related parties were carried out. For the supplemental information requested by CONSOB Communication No. 6064293 of 28 July 2006 on related-party transactions, refer to note 41 of the consolidated financial statements of the Tesmec Group and to note 35 of the financial statements of the Parent Company.

11. Parent Company management performance

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

Income statement

The income statement of the Parent Company in 2019 compared with that of the prior financial period is summarised below:

	Financial period ended 31 December			
(Euro in thousands)	2019	% of revenues	2018	% of revenues
Revenues from sales and services	**100,297**	**100.0%**	**93,078**	**100.0%**
Cost of raw materials and consumables	(53,573)	-53.4%	(49,471)	-53.2%
Costs for services	(15,942)	-15.9%	(14,402)	-15.5%
Payroll costs	(20,383)	-20.3%	(19,077)	-20.5%
Other operating (costs)/revenues, net	(78)	-0.1%	(1,602)	-1.7%
Amortisation and depreciation	(6,201)	-6.2%	(4,298)	-4.6%
Development costs capitalised	1,946	1.9%	2,578	2.8%
Total operating costs	**(94,231)**	**-94.0%**	**(86,272)**	**-92.7%**
Operating income	**6,066**	**6.0%**	**6,806**	**7.3%**
Financial expenses	(5,078)	-5.1%	(4,433)	-4.8%
Financial income	4,522	4.5%	3,263	3.5%
Pre-tax profit	**5,510**	**5.5%**	**5,636**	**6.1%**
Income tax	(1,277)	-1.3%	(1,306)	-1.4%
Net profit for the period	**4,233**	**4.2%**	**4,330**	**4.7%**

Revenues from the *sale of goods* refer to income deriving from the transfer of stringing machines and equipment and trenchers, these revenues increased by 7.8%.
Other operating (costs)/revenues, net includes the positive effect of the tax credit for significant research and development expenses incurred by the Parent Company Tesmec S.p.A. for the expansion of the offer in the new sectors for automation, maintenance of existing power lines and service activities, which were combined with the renewal of the product range in all of Trencher's business areas. The total value of the tax credit amounted to Euro 881 thousand for the 2019 financial period and to Euro 1,999 thousand for the 2018 financial period.

The table below illustrates the performance of EBITDA that increased by 10.5% compared to the previous financial period:

	Financial period ended 31 December				
(Euro in thousands)	2019	% of revenues	2018	% of revenues	2019 vs 2018
Operating income	6,066	6.0%	6,806	7.3%	(740)
+ Amortisation and depreciation	6,201	6.2%	4,298	4.6%	1,903
EBITDA (*)	**12,267**	**12.2%**	**11,104**	**11.9%**	**1,163**

(*) The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the 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 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by the Company and by the Tesmec Group on these indicators.

Operating profit

The operating profit equal to Euro 6,066 thousand in 2019 decreased by 10.9% compared to 2018 due to the net effect of the growth trends of EBITDA, offset by additional depreciation related to the accounting of IFRS 16.

Net result

Results for the period amounted to Euro 4,233 thousand (Euro 4,330 thousand in 2018) after deducting charges for taxes totalling Euro 1,277 thousand (charges of Euro 1,306 thousand in 2018).

Balance sheet and financial profile

The financial position of the Company as at 31 December 2019 compared to 31 December 2018 is briefly shown below.

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
USES		
Net working capital (*)	30,420	32,598
Fixed assets	85,522	70,390
Other long-term assets and liabilities	3,703	3,751
Net invested capital (*)	**119,645**	**106,739**
SOURCES		
Net financial indebtedness (*)	63,800	55,020
Shareholders' equity	55,845	51,719
Total sources of funding	**119,645**	**106,739**

* The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the 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 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by the Company and by the Tesmec Group on these indicators.

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

Working capital

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Trade receivables	36,832	28,869
Inventories	34,620	34,528
Trade payables	(33,721)	(25,584)
Other current assets/(liabilities)	(7,311)	(5,215)
Net working capital (*)	**30,420**	**32,598**

* The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not

regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the 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 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by the Company and by the Tesmec Group on these indicators.

The Working capital compared to revenues decreased from 35.0% reported in 2018 to 30.5% in 2019. This result was affected by the increase in trade receivables of Euro 7,963 thousand, the increase in trade payables of Euro 8,137 thousand and the increase in other current assets/(liabilities) of Euro 1,946 thousand.

Fixed assets

	Financial period ended 31 December	
	2019	**2018**
Intangible assets	5,732	6,041
Property, plant and equipment	7,403	8,291
Rights of use	14,228	-
Equity investments in subsidiaries	56,418	54,317
Equity investments in associates	1,738	1,738
Other equity investments	3	3
Fixed assets	**85,522**	**70,390**

Total *fixed assets* recorded a net increase of Euro 15,132 thousand mainly due to the increase in "Rights of use" of Euro 14,228 thousand. This item represents the effect of the recognition of a right of use, as envisaged by IFRS 16, for contracts previously accounted for as operating leases in line with the provisions of IAS 17.

Net financial indebtedness

	31 December			
(Euro in thousands)	**2019**	***of which with related parties and group***	**2018**	***of which with related parties and group***
Cash and cash equivalents	(4,649)		(10,560)	
Current financial assets	(45,377)	*(40,681)*	(36,967)	*(34,612)*
Current financial liabilities	61,149	*5,781*	57,350	*2,339*
Current financial liabilities from rights of use	2,295		-	
Current portion of derivative financial instruments	6		-	
Current financial indebtedness (*)	**13,424**	***(34,900)***	**9,823**	***(32,273)***
Non-current financial liabilities	38,315		45,162	
Non-current financial liabilities from rights of use	12,055		-	
Non-current portion of derivative financial instruments	6		35	
Non-current financial indebtedness (*)	**50,376**	**-**	**45,197**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 (*)	**63,800**	***(34,900)***	**55,020**	***(32,273)***

* The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the 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 and are not audited. Refer to paragraph 6.1 for the valuation criterion applied by the Company and by the Tesmec Group on these indicators.

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.

Net indebtedness stood at Euro 63,800 thousand as at 31 December 2019 from Euro 55,020 thousand as at 31 December 2018. The increase of Euro 14,350 thousand represents the effect of the recognition of a right of use and consequently of financial liabilities from right of use, as envisaged by IFRS 16, for contracts previously accounted for as operating leases in line with the provisions of IAS 17.

Shareholders' Equity

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

12. Corporate governance and self-regulatory code of conduct

The Tesmec Group conforms to the Self-regulatory Code of Conduct of listed companies approved in March 2006 and subsequently amended, updated in July 2015 and updated again in December 2018, by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., with additions and adjustments resulting from the characteristics of the Group.
The "Report on corporate governance and ownership structure" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance to the Self-regulatory Code of Conduct, including the main governance practices applied and the characteristics of the system of risk management and internal audit in relation to the process of financial reporting. The aforesaid Report is enclosed with the financial statements and subject to the same advertising terms provided for the financial statements, and it is available on the following website www.tesmec.com, in the Investors/Governance section.
For the information relating to corporate offices covered by the Directors of the Company, we make reference to what is reported in the *Report on corporate governance and ownership structure*. For the members of the Board of the Statutory Auditors, the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144-quinquiesdecies of the Issuer Regulation.

13. Places where the Company operates

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

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

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

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

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

- on 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 with immediate effect, 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 58/1998.

15. Business outlook

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 the consequent restrictive measures for its containment, implemented by the public authorities of the countries concerned. The Tesmec Group is monitoring and managing this phenomenon with great attention by applying all the appropriate health and safety protocols in full compliance with the provisions of the Ministry of Health. These circumstances, which are extraordinary in nature and extent, have direct and indirect repercussions on economic activities and created a general uncertainty, the development and effects of which are not foreseeable; therefore, the potential effects of this phenomenon on the financial statements will be constantly monitored throughout the year. Based on what is known to date, the Group believes that the impact of this situation does not have material consequences on ordinary activities in the medium term, while short-term liquidity requirements could arise as a result of the slowdown in production and commercial activities, against which the support of the controlling shareholder is confirmed, also through the signing of a loan agreement up to Euro 7 million, to be disbursed as needed and usable for the next three years.

The Group will continue to implement its multi-year strategic guidelines, confirming its focus in the various reference sectors mainly related to sustainable innovations, diagnostics and infrastructure cybersecurity. Tesmec's product portfolio aims to offer a range of advanced digital systems, fully connected machines equipped with advanced electronic controls and innovative remote monitoring systems. Digitalisation, both of products and processes, is a priority for the Group. Therefore, investments are focusing on digital platforms and IoT (Internet of Things) and Artificial Intelligence interfaces that will be the strategic driver of growth in the near future. In addition to digitalisation, the growing pressure on safety and the special attention paid to environmental impact are further key factors within the Group's strategic and development policies. In fact, the market is increasingly interested in products with high performance and low consumption, as well as technologies that guarantee the highest safety standards. Therefore, the actions developed will be mainly attributable to the Group's activities in the infrastructure and digital technology sectors. In particular, the development of the telecommunications and mining sector will characterise the Trencher sector, while in the Energy segment, in line with the key role that the energy transition is playing in recent years, there is expected to be increasing participation in highly innovative projects for the management of smart grids and renewable sources. Finally, in the Rail segment, the Group will focus on the development of new network diagnostic and maintenance systems.

16. Other information

Management and co-ordination activities

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

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

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

Treasury shares and shares of parent companies

On 16 April 2019, the Shareholders' Meeting authorised the treasury share buy-back plan. The authorisation was granted for a period of 18 months; the authorisation of 16 April 2019 replaces the last authorisation resolved by the Shareholders' Meeting on 6 April 2018 and expiring in October 2019. The plan set the maximum quantity as 10% of Share Capital; from the launch of the buy-back plan resolved on 10 January 2012 (and renewed on 16 April 2019) to the date of the period covered by this report, 31 December 2019, a total of 4,711,879 shares (4.40% of Share Capital) have been purchased at an average price of Euro 0.5543 (net of commissions) for a total equivalent value of Euro 2,612 thousand. In the period no purchases of treasury shares were made.

Equity investments held by Directors and Statutory Auditors

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

Tesmec shares held by Directors and Statutory Auditors

Board of Directors and Auditors

Name	Shareholding	Role	Number of shares held at the beginning of the 2019 financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2019 financial period
Ambrogio Caccia Dominioni	Direct	Chairman and Chief Executive Officer	155,800	-	-	155,800
Gianluca Bolelli	Direct	Vice Chairman	101,000	-	-	101,000
Caterina Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Lucia Caccia Dominioni	Direct	Director	9,500	-	-	9,500
Stefano Chirico	Direct	Statutory Auditor	11,492	-	-	11,492

Italian Legislative Decree 231/01

The Company adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificity of Tesmec S.p.A.
The Subsidiaries Tesmec Automation s.r.l. and Tesmec Rail s.r.l. 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., Tesmec Australia (Pty) Ltd former Marais Laying Technologies (Pty) LTD) that are considered "Significant Companies outside the EU" as defined by Consob Resolution no. 16191/2007, as amended.

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

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

The Control and Risk, Sustainability and Related Party 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 accounting auditor of Tesmec S.p.A., and the effectiveness of the information flow through meetings both with the accounting auditor and with the Manager responsible for preparing the financial 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:

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

Draft resolution of allocation of profit or loss for the period

For draft resolutions to the Shareholders' Meeting, reference should be made to the specific report of the Board of Directors on the allocation of the 2019 profit or loss for the period, which will be published in the manner and within the time limits established by current regulations.

17. Consolidated Non-financial Statement for 2019 pursuant to Italian Legislative Decree no. 254/2016

Letter to Stakeholders

Dear Stakeholders,

I am pleased to present the Consolidated Disclosure of non-financial information of the Tesmec Group for the year 2019, a reporting tool that, as from the 2017 financial period, wants to give you the opportunity to understand the behaviour 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 our personnel, ensuring ethical behaviour in the running of our business and in the relationships we undertake with our stakeholders.

In our commitment to promote and disseminate the principles of responsibility and sustainability, we have decided to contribute to the achievement of the United Nations Sustainable Development Goals published in the 2030 Agenda for Sustainable Development.

As proof of our commitment, we have undertaken specific activities and initiatives, including obtaining ISO 14001:2015 certification of the environmental management system for part of the Group's production facilities, carrying out initiatives to raise employees' awareness of environmental aspects and promoting training activities for our personnel, with a special attention to health and safety aspects aimed at ensuring the highest possible standards. Moreover, we have supported the local community with social initiatives through support for NPO associations and through voluntary activities undertaken by our employees in some developing countries where we operate.

In 2019, the role of innovation in our products and processes was also crucial. From the "Stringing" sector, in which a new concept of integrated systems 4.0 for the transport and distribution of energy allowed for more efficient stringing operations, to the "Rail" segment, which continues to produce electric and hybrid rail vehicles that, thanks also to integration with the "Automation" sector, allow us to have diagnostic systems for increasingly advanced and safe infrastructures.

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 for implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 - which envisages the requirement of disclosure of non-financial information and diversity information by large companies and groups.

This consolidated Non-financial statement (also “NFS” or “Statement”), referring to the financial year ended on 31 December 2019, it 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 2019 (from January 1 to December 31). In particular, this document describes the management models, the governance practiced by the company, the results achieved and the main risks, generated or suffered, with reference to the issues 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 2018 data are 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 Disclosure into its Report on Operations.

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

17.1.2 Boundary of the consolidated Disclosure of non-financial information

The scope of economic and financial data and information is the same as in the 2019 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 2019 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 (former Marais Laying Tech. (Pty) Ltd.)
- Marais Laying NZ Ltd

The following companies consolidated on a line-by-line basis in the 2019 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

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 of the activity itself. In fact, the environmental impacts of these companies, as envisaged by the Policy Group Non-Financial Report, are not considered significant due to their low incidence in terms of Group turnover (less than 2% of the consolidated total), number of employees (less than 10) and type of activity (non-productive).

The companies Marais Technologies SAS, Bertel S.r.l., East Trenchers S.r.l. and Marais Guinee SARLU that for the year 2019 had zero employees and turnover with an impact of less than 1% are also excluded from the reporting boundary of this document.

With reference to the extraordinary transactions that took place during the year, note that Tesmec Service S.r.l. was merged into Tesmec Rail S.r.l. and the remaining 51% of MIR SA was acquired.

In particular, the company MIR SA was included within the reporting boundary exclusively with reference to the figure as at 31 December of the workforce data.

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

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

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). With regard to the topic-specific Standard GRI 403 (Occupational Health and Safety), the most recent version of 2018 was adopted.

In the appendix to the document, you can consult the GRI Content Index where you can find the GRI indicators related to each material aspect. These indicators were selected based on a materiality analysis that made it possible to identify the most relevant sustainability issues 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 his 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.

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

1. Update of the Group Policy on the non-financial reporting process, formalised in a document approved by the Control and Risk, Sustainability and Related Party Transactions Committee and the Board of Directors;
2. preparation, update and approval of the materiality analysis;
3. definition of the contents of the NFS (boundary, indicators and disclosures);
4. starting the process for collecting and approving non-financial data and information;
5. approval of the NFS by the Board of Directors, together with the Report on Operations;
6. certification by the Independent Auditors specifically appointed for this audit.

This document was approved by the Board of Directors of Tesmec Spa on 13 March 2020.

The document was also subject to a limited review (limited assurance engagement in accordance with the criteria set out in ISAE 3000 revised) 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.

During 2020, the Group plans to formalise a Sustainability Plan by identifying commitments, objectives and targets in the area of sustainability. Moreover, starting from the next financial period, the Group will gradually structure the listening and engagement methods of external stakeholders, also with a view to updating the materiality analysis.

17.1.4 Profile and activities of the Tesmec Group

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 products, technologies and integrated solutions for the construction, maintenance and efficiency of infrastructures related to the transport and supply of energy, data and materials such as: aerial and underground power networks, traditional and high-speed railway lines, cables and pipelines).

Tesmec is a world leader in the design, production and supply of machines and equipment for tension stringing and equipment for construction and maintenance of infrastructure for transport and energy distribution.

The stringing machines are manufactured using the latest technology and top quality materials to ensure optimal cable stringing.

In the rail segment, Tesmec innovatively applied the tension stringing technology to the installation of catenary through systems that allow a fully automated control of the constant tension stringing operations, with high operational efficiency, accuracy and high level of safety. In line with the continuous updating of the technical standard of the rail catenary, Tesmec also offers a range of top systems for both track and catenary maintenance, and units for special applications.

The trenchers of the Tesmec Group are machines for carrying out excavations through milling unit and can excavate effectively both in very hard rock and in soil, as well as in difficult environmental conditions such as in permafrost and desert areas. Alongside the trenching machines with high mass and high power, Tesmec offers a compact line for applications in urban and narrow spaces.

The Tesmec Group, through its subsidiary Tesmec Automation, confirms its position as a supplier of reference of technologies for the electricity network by presenting a portfolio of products for all voltage classes and offering solutions to the growing needs arising from the spread of renewable resources and distributed generation.
By integrating a strong expertise in the development of sensors and electronics in general, Tesmec expands its business to the supply of integrated systems to meet the needs of a society characterised by a growing need for energy in a sustainable and efficient way.

Finally, the Tesmec Group provides complementary services such as: after-sales technical support, technical support on sites for system start-up and synchronisation, training programmes on the use and maintenance of the machines. The main results achieved by the Tesmec Group in 2019 are represented by the numbers of the year:

Total number of employees		925
Net revenues	Euro	200,666,428
Development costs capitalised	Euro	7,232,590
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 82 of the 2019 Annual Financial Report.

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 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 your 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 behaviour 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 involvement; the frequency of involvement is on an annual basis. The table below shows the main engagement activities, the engagement channels used and any issues that may have emerged from each stakeholder group during the involvement phase.

Stakeholder	Type of involvement activity	Aspects/expectations expressed by stakeholders
Employees	Internal communications	Involvement in company life
Community	Specific projects	Solidarity initiatives
Shareholders	Shareholders' Meeting	Approval of financial statements
Analysts	Star conference	Presentation of company results
Financial and/or business partners	Trade fairs	Presentations of new projects
Trade associations	Conferences / Seminars	Coordination and development
Suppliers	Trade fairs / Newsletters	Presentations of new products
Customers	Trade fairs / Newsletters	Presentations of new products

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 "materiality" principle, which identifies the information through which it can be ensured that the Group's activities, performance, results and impact on non-financial aspects indicated in the Decree are understood.

The process for determining material aspects was carried out by evaluating the aspects that are considered relevant by Tesmec defined by means of the materiality analysis of the year 2017.

The update of the analysis in 2019 kept the management perspective (on the abscissa) unchanged and focused on updating the Stakeholder perspective (on the ordinate).

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

On the other hand, the process of updating the Stakeholder perspective during 2019 took place by sending a questionnaire to a limited number of employees. Once the results obtained were analysed, there were no significant deviations from the materiality used to report last year's Consolidated non-financial statement.

In line with last year, issues relating to water consumption and pollutant emissions into the atmosphere not included in greenhouse gas emissions were not material following the materiality analysis process. Nevertheless, by virtue of the monitoring actions taken by the Group, no significant risks related to the above issues were reported.

The results of these analyses were aggregated and rationalised on the basis of the aspects defined by the GRI Standards and the regulatory requirements of Italian Legislative Decree 254/2016 in order to construct the materiality matrix that considers in the x-axis the average values of each aspect relevant for Tesmec and in the y-axis the average value of each relevant aspect according to Stakeholders.
A threshold was then set that made it possible to identify the material aspects that, once submitted for approval to the Control and Risk, Sustainability and Related Party Transactions Committee and to the Board of Directors on 20 December 2019, were subject to reporting. Aspects higher than 3 (defined as "materiality threshold"), on a scale from 0 to 4, for both axes, are considered material for Tesmec. Finally, the material aspects were related to the areas of the Decree, the aspects of the GRI Standards and the related disclosures and are represented in the table below "Table of reconciliation between the TESMEC material aspects and the GRI Standards".

Table of reconciliation between Tesmec material aspects and the GRI Standards

Area	Material aspects	Topic-specific GRI Standards of reference	Where the impacts occur	Organisation involvment
Anti-Corruption	Anti-Corruption	Anti-Corruption (GRI 205)	All the Group Consultants, agents and partners	Caused by the Group. Directly linked through a business relationship.
Human Resources	Employees management	Employment (GRI 401)	All the Group	Caused by the Group
	Labor/management relations	Minimum notice periods regarding operational changes (GRI 402)	All the Group	Caused by the Group
	Safety at work	Occupational health and safety (GRI 403)	All the Group	Caused by the Group. Directly linked through a business relationship.
	Growth and training	Training and education (GRI 404)	All the Group	Caused by the Group
	Diversity and equal opportunities	Diversity and equal opportunities (GRI 405)	All the Group	Caused by the Group
Human rights	Human rights	Non-discrimination (GRI 406)	All the Group Suppliers	Caused by the Group. Directly linked through a business relationship.
Environment	Energy	Energy (GRI 302)	All the Group Suppliers	Caused by the Group. Directly linked through a business relationship.
	Emissions	Emissions (GRI 305)	All the Group Suppliers	Caused by the Group. Directly linked through a business relationship.
	Waste management	Effluents and waste (GRI 306)	All the Group Suppliers	Caused by the Group. Directly linked through a business relationship.
	Raw materials and goods	Materials (GRI 301)	All the Group Suppliers	Caused by the Group. Directly linked through a business relationship.
Social	Regulatory compliance and business ethics	Environmental and socioeconomic compliance (GRI 307; GRI 419)	All the Group	Caused by the Group
	Product safety	Customer health and safety (GRI 416)	All the Group Sales Network (authorised dealers and agents)	Caused by the Group. Directly linked through a business relationship.
	Responsible management of supply chain	Supplier social and environmental assessment (GRI 308, GRI 414)	All the Group Suppliers	Caused by the Group. Directly linked through a business relationship.

Tesmec's commitment to the Sustainable Development Goals

In 2019, Tesmec committed to contribute to the achievement of the Sustainable Development Goals ("SDGs") defined by the United Nations in 2015. In particular, Tesmec identified six of the 17 United Nations Goals to which it could contribute more, taking into account its activities and material aspects.

3 GOOD HEALTH AND WELL-BEING — Ensure healthy lives and promote well-being for all at all ages

11 SUSTAINABLE CITIES AND COMMUNITIES — Make cities and human settlements inclusive, safe, resilient and sustainable

7 AFFORDABLE AND CLEAN ENERGY — Ensure access to affordable, reliable, sustainable and modern energy for all

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Ensure sustainable consumption and production patterns

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

15 LIFE ON LAND — Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

For each Sustainable Development Goal, the Group identified the projects and actions that can concretely contribute to the achievement of the Goals, including:

- **3. Good Health and Well-being:** ensuring a healthy life to its employees and the communities in which Tesmec operates, through welfare initiatives, awareness raising 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 Land:** protecting, restoring and promoting a more sustainable ecosystem through initiatives focusing on respect, care and protection of the environment.

17.1.7 Adopted calculation methods

Only CO_2 emissions were taken into account for the calculation of greenhouse gas emissions. CO_2 emissions are calculated by multiplying the GJ of energy by the emission factors provided by the technical literature. 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 to 2019 and the 2018 version for the year before the reporting year.

The emission factors used to convert electricity into tonnes of CO_2[1] are the following:

Category		
Electricity (Location based)	gCO_2/kWh	Country specific EF - (Source: Terna international comparisons on 2016 and 2017 Enerdata figures)
Electricity (Market based)	gCO_2/kWh	Country specific EF - (Source: AIB - Association of issuing Bodies, 2017 and 2018 European Residual Mix – report). 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.

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 each country in the world.

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

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

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

In particular, the values of Tesmec are:

- Enhancement of human resources and personal integrity
- Confidentiality
- Responsibility towards the community
- Fighting corruption and conflicts of interest
- Protection of human rights and safety of people

[1] Emissions of Scope 1 and Scope 2 are expressed in tonnes of CO2; however, the percentage of methane and nitrous oxide has a negligible effect on total greenhouse gas emissions ($CO_{2equivalent}$) as can be inferred from the technical literature of reference.

- Protection of the environment and quality standards
- Fair competition
- Protection of Intellectual Property
- Transparency
- Fairness in the management of contracts

All this requires the Tesmec Group to pursue a growth strategy that can be summarised in the term "Glocal": 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.

17.3 Compliance and Anti-Corruption

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

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

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

17.3.1 Policies, management systems and organisational models

Corporate Governance Structure

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

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

- a Shareholders' Meeting vested with the decisions on prime acts of management of the Company, in accordance with the Law and the Articles of Association;
- a Board of Directors in charge of managing the company business, which has granted operational powers to bodies and delegated subjects;

- a Board of Statutory Auditors called upon to supervise the compliance with the Law and the Articles of Association and the compliance with the principles of correct administration, as well as to control the adequacy of the organisational structure, the internal control system and the company's administrative-accounting system; the Board of Statutory Auditors comprises three statutory auditors and two alternate auditors;
- Independent Auditors, in charge of auditing and providing an opinion on the financial statements pursuant to the Law and Articles of Association;
- a Director in charge of the internal control and risk management system.

The Board of Directors of Tesmec S.p.A. was appointed by the Shareholders' Meeting of 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.

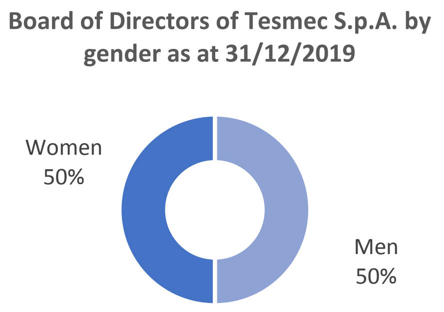
Management systems and organisational models

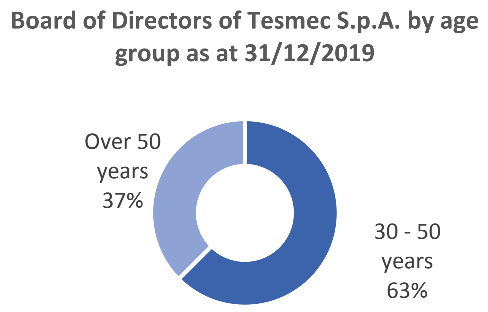
During 2019, Tesmec implemented the following business management systems and internal organisational models:

- Quality, Health, Safety and Environment Management Systems according to ISO 45001:2018 and ISO 14001:2015 for the Italian companies 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 Board of Directors of Tesmec S.p.A. of 23 February 2010 adopted an organisational model aimed at ensuring fair and transparent conditions in running the company business, to protect its own position and image and those of the companies of the Group, the expectations of its own shareholders and the work of its own employees; the principles of this model are determined by the coming into force of the Italian Legislative Decree no. 231/2001 (known as Model 231).

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





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

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

The issues mentioned by the Decree (environmental, social aspects 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.

Risk management

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

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

The Company appoints the Internal Audit function as staff for the Board of Directors, reporting directly to the Control and Risk, Sustainability and Related Party Transaction Committee, responsible for coordinating and assessing the compliance of the business processes with rules and regulations, he periodically reports to the control bodies on its activities, without prejudice to the responsibility of the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code, which carries out checks on what may have a significant impact on the financial statements, 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, envisaging 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, Control and Risk, Sustainability and Related Party Transactions Committee during the year, it 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 environment undertaken since 2018 allowed to obtain the ISO 14001 and ISO 9001 certifications of Tesmec S.p.A. 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 which, despite not having implemented systems certified according to ISO standards, has made every effort to map as much as possible the activities subject to safety and environmental risks both with regard to sites and with regard to the activities carried out at repair shops, proposing remedial actions to be taken.

Anti-Corruption

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

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

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

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

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

In detail, the Policy prohibits:

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

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

when the intention is to:

- incite a Public Official or a private individual to perform improperly any public function or any activity associated with a business or to reward him for having performed it;
- influence an official measure (or omission) by a Public Official or any decision in violation of an official duty;
- obtain, secure or maintain a deal or an unfair advantage in relation to the business activities; or
- 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 2019, there were no cases of both active and passive corruption.

17.4 Management of human resources and human rights

The relevant aspects related to the management of human resources are summarised in the following table, together with the main risks identified by Tesmec's management.
The Human Resources Department of Tesmec S.p.A. acts as a coordinator for the corresponding local functions, but each Group company has its own management as a result of the needs arising from specific local legislation. The data concerning the issues raised in the 2019 materiality analysis were collected and processed centrally by the Human Resources Department of Tesmec S.p.A. with the support of its local contacts, by sending questionnaires in Excel format.
The following pages describe the policies, the management system and the results achieved.

RELEVANT ASPECTS RELATED TO HUMAN RESOURCES and HUMAN RIGHTS	MAIN RELATED RISKS (cf. § "Main risks and uncertainties" of the Report on Operations)
Growth and training Employees management Safety at work Human rights Labour/management relations Diversity and equal opportunities	Risk of increased turnover and loss of personnel with high professional seniority and difficulty in integrating skills Risk of not being able to find resources on the market with high digital skills Risk related to the health and safety of employees in relation to 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 put in place by its employees Risk related to possible non-compliance with future laws and/or regulations on diversity

17.4.1 Policies, management systems and organisational models

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

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

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

The elements that characterised Tesmec's personnel management system in 2019 are reported below:

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

Tesmec is aware that some operations carried out as part of its activity can present risks for the environment and the people. In addition to the commitments valid for the entire Group for the protection of the environment and safety in the workplace, Tesmec S.p.A. already as from 2018 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 conduct of the personnel, by also inspiring the principles of foreign companies.

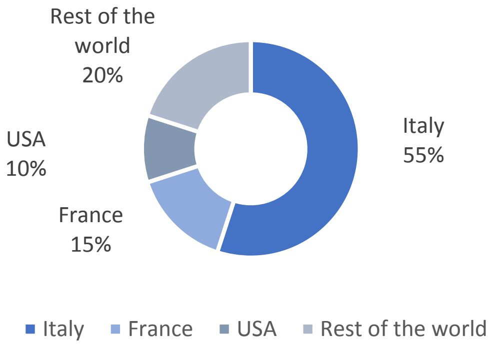
Human rights

The protection of human rights is an important issue for Tesmec, but it is not considered necessary to manage it strategically, in that the issue 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.

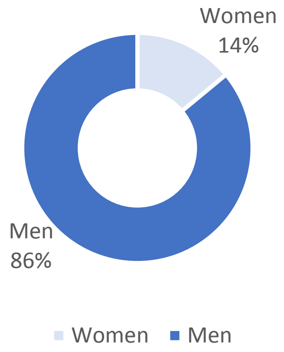
However, in order to avoid as much as possible that isolated cases could violate human rights, Tesmec envisaged in its Code of Ethics, among the fundamental ethical principles of reference, also that of "Enhancement of human resources and personal integrity", refusing any form of discrimination in terms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

There were no cases of discrimination during 2019. Note that a case of alleged discrimination occurred during 2018 in relation to Tesmec USA is still being investigated.

Employees by region (as at 31/12/2019)



Employees by gender (as at 31/12/2019)



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

17.4.2 Non-financial results and indicators

Composition and characteristics

The Tesmec Group had 925 employees as at 31 December 2019. There was an overall increase of 10% in human resources as at 31 December 2019 compared to 31 December 2018.
The commitment to establish stable and lasting relations is confirmed by the high percentage of employees hired with an open-term labour contract (88% of the total).

	Number of employees as at 31 December by employment contract (permanent and temporary), by gender and by region						
	Employment Contract	2018			2019		
		Men	Women	Total	Men	Women	Total
ITALY	Permanent	358	79	437	407	84	491
	Temporary	23	2	25	13	2	15
	Total Italy	**381**	**81**	**462**	**420**	**86**	**506**
FRANCE	Permanent	122	14	136	124	14	138
	Temporary	2	1	3	1	-	1
	Total France	**124**	**15**	**139**	**125**	**14**	**139**
USA	Permanent	70	11	81	80	12	92
	Temporary	-	-	-	-	-	-
	Total USA	**70**	**11**	**81**	**80**	**12**	**92**
OTHER COUNTRIES	Permanent	129	17	146	82	15	97
	Temporary	4	-	4	85	6	91
	Total Other Countries	**133**	**17**	**150**	**167**	**21**	**188**
TOTAL TESMEC GROUP	**Permanent**	**679**	**121**	**800**	**693**	**125**	**818**
	Temporary	**29**	**3**	**32**	**99**	**8**	**107**
	Total TESMEC GROUP	**708**	**124**	**832**	**792**	**133**	**925**

The geographical distribution of Group employees: 55% employed in Italy, 15% in France, 10% in North America and the remaining 20% in other countries.

	Number of employees as at 31 December by employment type (full-time and part-time) and by gender						
	Type of Contract	2018			2019		
		Men	Women	Total	Men	Women	Total
TOTAL TESMEC GROUP	Full-Time	680	111	791	787	121	908
	Part-time	28	13	41	5	12	17
	Total Italy	**708**	**124**	**832**	**792**	**133**	**925**

The professional category most represented is that of blue collar employees (53% of the total), followed by white collar employees (37% of the total), middle managers (7% of the total), and managers (3% of the total).

86% of the personnel is male, due to the nature of the business that requires the presence of a high number of workers and therefore work duties historically characterised by a strong male presence. Women are mainly present in administrative offices, in particular 31% of employees 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.

60% of the Group's employees belong to the age group between 30 and 50 years, 21% of employees are over 50 years of age and 19% of employees are under 30 years of age.

Employee category	Number of employees as at 31 December by category and and by gender					
	2018			2019		
	Men	Women	Total	Men	Women	Total
Managers	16	1	17	26	2	28
Middle managers	70	11	81	53	8	61
White collar	248	96	344	236	106	342
Blue collar	374	16	390	477	17	494
Total	**708**	**124**	**832**	**792**	**133**	**925**

Employyee category	Number of employees as at 31 December 2019 by category and by age group [1]			
	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	111	228	99	438
Total	**160**	**499**	**174**	**833**

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

[1]It is specified that Tesmec USA, Inc. was not taken into account for the calculation of this index due to the company's decision not to monitor this indicator to avoid the communication of data subject to possible dispute.

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

In 2019, the number of external workers of the Tesmec Group is 64, figure referring to all the reported companies[2].

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

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, collective labour agreements in force and trade union agreements.

Training programmes

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

- welcoming and introduction onto the team through orientation programmes and personal tutors;
- achieving and sharing the results of the organisation;
- transparency, consistency and access to information necessary to perform the job;
- stimulating and guiding the collaborators so that they contribute to the organisational targets, beyond the mere scope of their work.

Training activities were consolidated also in 2019, favouring active methods to support the processes of fitting into the company or into highly professional roles.

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

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

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

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

Employyee category	**Average hours of training per employee, by category and by gender**					
	2018			**2019**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Managers	0.9	-	0.8	2.5	-	2.3
Middle managers	2.3	5.8	2.8	8.4	5.1	7.9
White collar	3.2	2.9	3.1	2.9	2.4	2.8
Blue collar	17.2	18.6	17.3	12.4	7.0	12.2
Total	**10.5**	**5.2**	**9.7**	**8.9**	**3.0**	**8.0**

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

As shown in the table above, the average number of hours of training is higher for the category of workers (12.2 hours per employee).

The opportunity to qualify and enhance human resources also includes training programmes aimed at updating those who use new technologies, new organisational processes, as well as training the skills suitable for programming and multidisciplinary engineering of products and processes in new ways (hard skills and soft skills).

Tesmec places the employees at the centre of its strategies for growth and development, favouring the increase of their well-being and of an ideal work-life balance. With this in mind, it was decided to strengthen the Welfare Plan for Italian companies from 2017 onwards, a plan already active in 2016 with reference to management incentive, with a new Flexible Benefits plan for all employees opting for II level contracts and envisages using a set of different types of services aimed at increasing personal well-being, support to family life as well as social security and health coverage.

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

New employee hires and employee turnover

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.

In 2019 and 2018, the following turnover indexes were recorded, broken down by age group, gender and geographic area.

New employees hires and employee turnover	New employee hires*		Employee turnover*	
	2018	2019	2018	2019
Age group				
<30	48%	42%	35%	20%
30-50	23%	20%	16%	10%
>50	10%	9%	11%	15%
Gender				
Man	24%	23%	18%	14%
Woman	21%	18%	20%	13%
Geographic area				
Italy	21%	17%	11%	8%
France	17%	19%	24%	19%
United States	35%	28%	35%	16%
Rest of the world	49%	39%	48%	22%
Total	**25%**	**23%**	**20%**	**13%**

The data collected at the Tesmec Group level, considering the specified exclusions, show that in 2019 there was a greater incidence of hiring for employees under 30 years of age (42%), compared to the rates recorded respectively for the other age groups. At the same time, there was a higher turnover in the under-30s age group (20%). Moreover, hiring is evenly distributed by male gender (23%) and by female gender (18%) compared to the respective headcount totals.

Specifically, the following is a breakdown in absolute terms of the new employee hires and employee turnover rates for 2018 and 2019.
New employee hires:

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		26	2	28
30-50	43	8	50	17	3	20	N/A	N/A	N/AN/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**

2018	Italy			France			USA*			Rest of the world*		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	22	5	27	6	-	6	N/A	N/A	N/A	17	3	20
30-50	53	8	61	10	4	14	N/A	N/A	N/A	16	1	17
>50	9	1	10	4	-	4	N/A	N/A	N/A	3	1	4
Total	**84**	**14**	**98**	**20**	**4**	**24**			**28**	**36**	**5**	**41**

Employee Turnover:

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		17	3	20
30-50	20	3	23	10	3	13	N/A	N/A	N/AN/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**

2018	Italy			France			USA*			Rest of the world*		
Age group	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total (without age group)**	**Men**	**Women**	**Total**
<30	4	2	6	10	1	11	N/A	N/A	N/A	18	4	22
30-50	24	7	31	15	3	18	N/A	N/A	N/A	13	3	16
>50	13	1	14	4	-	4	N/A	N/A	N/A	2	-	2
Total	**41**	**10**	**51**	**29**	**4**	**33**			**28**	**33**	**7**	**40**

***** For the purposes of calculating new employee hires and employee turnover rates by age group and gender, the figure for the company Tesmec USA, Inc. has been excluded in that by company decision this indicator is not monitored to avoid the communication 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 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 (including 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.

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

Health and Safety at work

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

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

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 a policy 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 Health and Safety at work, is assigned to the Employer in the first place and, to all other persons involved in the organisation of safety (Prevention and Protection Service Manager, 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, whether of the Parent Company or of the subsidiary companies.

The Italian companies implemented an occupational health and safety management system covering all employees in Italy. 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.

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, depending on the local regulations in force, this type of meeting may take place as in France, where they met four times in 2019.

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 aspects 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 at the site, with the aim of monitoring as much as possible the main risks related to the service activities carried out at these workplaces, in compliance with the regulations of the country of reference and of the other companies operating within the same site.

The main data collected on Health and Safety at work is summarised below. It is specified that the main types of work-related injuries are related to the handling of machinery and road hazards. The most significant risks are concentrated on construction sites where high-consequence injuries may occur. In particular, the high-consequence injury that occurred in 2019 was related to a road hazard. Occupational hazards are generally identified through risk assessments and consultations with workers.

In 2019, there were 18 employee injuries, of which 5 occurred in Italy, 12 in France and 1 in the U.S.A.

In 2019, there were also 4 injuries involving external workers.

The following rates only take into account injuries that have resulted in days lost beyond the day on which the event occurred (i.e. minor accidents, e.g. first-aid and limitation to work, are not taken into account)[3].

	2018		2019	
	Employees	**External workers**	**Employees**	**External workers**
Hours worked	**1,353,816**	**130,921**	**1,434,160**	**97,465**
Number of fatalities as a result of work-related injuries	**-**	**-**	**-**	**-**
Number of high-consequence work-related injuries (excluding fatalities)	**1**	**-**	**-**	**-**
Number of recordable work-related injuries	**25**	**2**	**18**	**4**
Rate of fatalities as a result of work-related injuries	0.00	0.00	0.00	0.00
Rate of high-consequence work-related injuries (excluding fatalities)	0.74	0.00	0.00	0.00
Rate of recordable work-related injuries	17.73	15.28	12.55	41.04

17.5 Responsible management of environmental impacts

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

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

RELEVANT ASPECTS RELATED TO THE ENVIRONMENT	MAIN RELATED RISKS ("Main risks and uncertainties" of the Report on Operations)
Energy	Risk related to the non-compliance with environmental laws and regulations
Emissions	Risk related to the absence of targets to reduce energy consumption and greenhouse gas emissions
Raw materials and materials	Risk related to the lack of suppliers able to guarantee the environmental requirements
Waste management	

[3] Starting from this NFS, it was decided to report health and safety data using the new GRI Standard 403, published by the Global Reporting Initiative (GRI) in 2018, replacing the version used for the 2018 NFS. For previously published data, refer to the 2018 NFS, published in the Investors section, website www.tesmec.com.

17.5.1 Policies, management systems and organisational models

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

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

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

During 2019, the Italian companies Tesmec Rail S.r.l. and Tesmec Automation S.r.l. obtained the environmental certification ISO 14001, an important goal achieved with the aim of protecting the environment in which Tesmec operates. The certification and the related system 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. During 2019, an HSE Policy was formalised also for the companies Tesmec Rail S.r.l. and Tesmec Automation S.r.l. thus achieving the objective that the Tesmec Group had set itself last year of a global integration in the management of environmental issues. 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 aspect of the protection of the environmental heritage when defining company choices and objectives and to the constant improvement of the following essential aspects:

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

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

The advanced technologies developed by Tesmec are always focused on improving performance, respecting the environment and Tesmec, therefore, is committed to reducing greenhouse gas emissions and developing projects for energy efficiency. The machines produced have the objective of reducing the environmental impact to a minimum: low 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.

17.5.2 Non-financial results and indicators

Energy

For the protection of the environment, Tesmec S.p.A. is implementing a monitoring system as per ENEA directives to check consumption and define energy saving solutions and procedures.
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.), has been active. This system aims to obtain a better measurement of consumption and thus allow a better energy efficiency.

The following table shows the Group's energy consumption for 2019 and 2018:

Energy consumption (GJ)	2018[4]	2019
Natural gas	19,566	21,896
Diesel oil	59,255	52,716
Petrol[5]	232	4,923
LPG	763	743
Electricity purchased	16,047	17,529
Self-produced electricity	4,322	4,836
of which from renewable sources	*4,322*	*4,836*
Electricity sold	702	771
Total consumption	**99,483**	**119,401**
of which electricity consumed	**19,667**	**21,594**

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

Note that for 2019, the Tesmec Group produced energy from renewable sources of 1,343,448 kWh, of which 214,196 kWh were sold to the electricity network.

Note also that the decrease in LPG consumption in 2019 is partly due to less processing at Tesmec S.p.A which required a lower quantity of LPG and partly to efficiency initiatives undertaken by Tesmec USA that led to the removal of the floor sweeper using LPG in 2019, thus reducing the quantity in 2019.

With regard to the decrease in diesel consumption compared to 2018, the consumption of the resource by the Australian company had a considerable impact, with a reduction in the number and quantity of projects carried out in 2019.

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 increased in 2019 compared to the previous year. This change is mainly due to the increased use of petrol and natural gas and to an improvement in the data collection system by the companies belonging to the reporting boundary, which made more accurate information available.

[4] Following a process of improvement of the reporting system, the data for 2018 have been restated compared to those published within the 2018 NFS. For previously published data, refer to 2018 NFS, published in the Investors section, website www.tesmec.com. In particular, note that the previously estimated 2018 figure was updated with the invoice figure.

[5] 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., data not available for 2018 reporting. Note also that the data for electricity purchased for Tesmec S.A. (Pty) has been estimated.

Emissions (tCO2)	2018[6]	2019
Direct emissions - scope 1		
emissions from natural gas consumption	1,109	1,240
emissions from diesel oil consumption	4,275	3,760
emissions from petrol consumption	16	334
emissions from LPG consumption	49	47
Total scope 1	5,449	5,382
Indirect emissions - scope 2		
Emissions from electricity consumption - location based	1,518	1,697
Emissions from electricity consumption - market based	1,843	2,044
Total scope 1 and scope 2 (market based)	**7,292**	**7,426**

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 2019, 174.50 tonnes of hazardous waste were produced.
With regard to the production of non-hazardous waste, about 83% of the total produced in 2019 was recycled, while about 16% was sent to landfill[7].

	Total waste by type and disposal method		
	Unit of measurement	**From 1 January 2018 to 31 December 2018***	**From 1 January 2019 to 31 December 2019**
Type of waste and disposal method		**Total**	**Total**
Total hazardous waste	**t**	**169**	**180**
- Of which reused	t	-	-
- Of which recycled	t	137	43
- Of which composted	t	-	-
- Of which recovered, including energy recovery	t	10	22
- Of which in landfill	t	7	22
- Of which incinerated	t	16	96
- Other	t	-	-
On-site storage and/or last year's storage	t	-	-
Total non-hazardous waste	**t**	**1,281**	**1421**
- Of which reused	t	-	-
- Of which recycled	t	900	1,203
- Of which composted	t	2	2
- Of which recovered, including energy recovery	t	43	13
- Of which in landfill	t	336	200

[6] Following a process of improvement of the reporting system, the data for 2018 have been restated compared to those published within the 2018 NFS. For previously published data, refer to 2018 NFS, published in the Investors section, website www.tesmec.com. In particular, note that the previously estimated 2018 figure was updated with the invoice figure.

[7] 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.

- Of which incinerated	t	-	-
Other	t	-	-
On-site storage and/or last year's storage	t	-	-
Total Waste	**t**	**1,450**	**1601**

***** Following a process of improvement of the reporting system, the data for 2018 have been restated compared to those published within the 2018 NFS. For previously published data, refer to the 2018 NFS, published in the Investors section, website www.tesmec.com

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, intended as relevant raw material, while only for aluminium and nylon also Tesmec USA and Tesmec Marais Group France do not make the purchase.

In total, 1,667 tonnes of steel and ferrous materials were purchased in 2018, whereas for 2019 the purchase of 1,406 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)[8]	2018	2019
Semi-finished steel products (sheets, tubes, rounds)	1,307	1,156
Semi-finished aluminium products (sheets, tubes, rounds)	54	40
Semi-finished nylon products (rings, plates)	73	59
Hydraulic oil and lubricants	234	151
Total	**1,667**	**1,406**

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.

[8] 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.

17.6 Responsible management of the supply chain and product safety

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

The data concerning these issues were collected and processed by the 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 a power of attorney 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 Disclosure of non-financial information, by sending questionnaires in Excel format.

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

RELEVANT ASPECTS RELATED TO SOCIAL ASPECTS	MAIN RELATED RISKS ("Main risks and uncertainties" of the Report on Operations)
Product safety **Responsible management of the supply chain**	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 due to accidents involving contractors and suppliers

17.6.1 Policies, management systems and organisational models

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

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

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

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

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

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

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

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

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

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

17.6.2 Non-financial results and indicators

Supply chain

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

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

The main services/goods purchased are:

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

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

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

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

At present, there are no specific environmental or social requirements used in the qualification of a new supplier, except for those aspects related to safety and protection at work both during the collection of documents and during the visit to the supplier's premises, assessing elements such as the technical and professional suitability of the examined company, the regularity of contributions and remuneration for employees, the existence of a structure dedicated to safety at work, etc.

However, with regard to the evaluation of existing suppliers, starting in 2019, in accordance with the provisions of the integrated certification on health, safety and the environment obtained by Tesmec S.p.A., specific questionnaires will be implemented for suppliers considered strategic, i.e. key suppliers for all Tesmec S.p.A. plants.

Product quality and safety

In order to ensure the highest level of service to its customers, Tesmec 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 timeframe, while maintaining a simple and flexible organisational structure.

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

Conformity with the Machinery Directive (CE mark) is required for all products (where applicable), including those outside the EU, in order to ensure maximum coverage of the safety assessment. Therefore, the product is above the safety requirement in markets with lower safety requirements. Each machine and equipment 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 non-conformities that emerged, especially those related to product safety, and takes action to resolve the problems.

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

The Tesmec Group is constantly focused on:

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

In 2019, there were no Incidents of non-compliance concerning the health and safety impacts of products and services.

17.7 GRI Content Index

All disclosures in the GRI Content Index refer to the 2016 GRI Standards with the integration, compared to the 2018 GRI Content Index, of the General Disclosures envisaged following the adoption of the "Core" option.

GRI Standard Title	GRI disclosure number	GRI Disclosure Title	Page of the Disclosure	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. 45 - 46	
	102-3	Location of headquarters	Via Zanica, 17/O - 24050 Grassobbio, Bergamo	
	102-4	Number of countries where the organisation operates, and the names of countries where the organisation operates or that are particularly important for the purposes of sustainability issues mentioned in the Social Responsibility Report	p. 51	
	102-5	Ownership and legal form	p. 39 Reference to the Report on corporate governance and ownership structure	
	102-6	Markets served	p. 51	
	102-7	Scale of the organisation	p. 46	
	102-8	Information on employees and other workers	pp. 57 - 58	
	102-9	Supply chain	pp. 68 - 70	
	102-10	Significant changes to the organisation and its supply chain	There have been no significant changes in the supply chain	
	102-11	Precautionary Principle or approach	pp. 55; 63; 64; 68	
	102-12	External initiatives	p. 50	
	102-13	Membership of associations	Confindustria	
GRI 102: General Disclosures - Strategy	102-14	Statement from senior decision-maker	p. 43	
GRI 102: General Disclosures 2016 - Ethics and integrity	102-16	Values, principles, standards, and norms of behaviour	pp. 51 - 52	
GRI 102: General Disclosures 2016 - Governance	102-18	Governance structure	p. 53	
GRI 102: General Disclosures 2016 - Stakeholder engagement	102-40	List of stakeholder groups	pp. 46 - 47	
	102-41	Collective bargaining agreements	78 %	
	102-42	Identifying and selecting stakeholders	pp. 46 - 47	
	102-43	Approach to stakeholder engagement	pp. 46 - 47	
	102-44	Key topics and concerns raised	pp. 47	
GRI 102: General Disclosures - Reporting practice	102-45	Entities included in the consolidated financial statements	pp. 44 - 45	
	102-46	Defining report content and topic Boundaries	p. 49	
	102-47	List of material topics	pp. 48 - 49	
	102-48	Restatements of information	The company Tesmec Service S.r.l. was merged into the company Tesmec Rail S.r.l. on 1 May 2019. The company MIR SA was	

			consolidated on a line-by-line basis since 1 November 2019. Note an update of the data relating to natural gas and diesel consumption and the related emissions of Scope 1 of 2018 and the waste produced as a result of the presence of some information made available after the publication of the 2018 NFS on pages 65, 66 and 67.	
	102-49	Changes in reporting	pp. 47 - 48	
	102-50	Reporting period	p. 44	
	102-51	Date of most recent report	The previous NFS refers to the reporting year 2018 and published in 2019.	
	102-52	Reporting cycle	p. 44	
	102-53	Contact point for questions regarding the report	p. 3	
	102-54	Claims of reporting in accordance with the GRI Standards	p. 45	
	102-55	GRI content index	pp. 71 - 75	
	102-56	External assurance	p. 77	
Topic: Anti-Corruption				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 52; 54 - 55	
	103-3	Evaluation of the management approach	pp. 52; 54 - 55	
GRI 205: Anti-Corruption – 2016	205-3	Confirmed incidents of corruption and actions taken	p. 55	
Topic: Materials				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 64; 67	
	103-3	Evaluation of the management approach	pp. 64; 67	
GRI 301: Materials - 2016	301-1	Materials used by weight or volume	p. 67	
Topic: Energy				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 64 - 65	
	103-3	Evaluation of the management approach	pp. 64 - 65	
GRI 302: Energy - 2016	302-1	Energy consumption within the organisation	p. 65	
Topic: Emissions				
-GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 64; 65-66	
	103-3	Evaluation of the management approach	pp. 64; 65-66	
	305-1	Direct (Scope 1) GHG emissions	p. 66	

GRI 305: Emissions - 2016	305-2	Energy indirect (Scope 2) GHG emissions	p. 66	
Topic: Effluents and waste				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 64; 66 - 67	
	103-3	Evaluation of the management approach	pp. 64; 66 - 67	
GRI 306: Effluents and waste – 2016	306-2	Waste by type and disposal method	pp. 66 - 67	
Topic: Environmental compliance				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	p. 64	
	103-3	Evaluation of the management approach	p. 64	
GRI 307: Environmental compliance -2016	307-1	Non-compliance with environmental laws and regulations	In 2019, there were no significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations.	
Topic: Supplier Environmental Assessment				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 68 - 70	
	103-3	Evaluation of the management approach	pp. 68 - 70	
GRI 308: Supplier Environmental Assessment - 2016	308-1	New suppliers that were screened using environmental criteria	pp. 69 - 70	
Topic: Employment				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 56; 60 - 61	
	103-3	Evaluation of the management approach	pp. 56; 60 - 61	
GRI 401: Employment - 2016	401-1	New employee hires and employee turnover	pp. 60 - 61	
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 60	
Topic: Labour/Management relations				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 56; 59	
	103-3	Evaluation of the management approach	pp. 56; 59	
GRI 402: Labour/Management relations - 2016	402-1	Minimum notice periods regarding operational changes	The minimum period, where present, is defined by local regulations and, where envisaged, by the CCNL (Contratto Collettivo Nazionale di Lavoro, Collective National Labour Agreement).	
Topic: Occupational Health and Safety				

GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 56; 61 - 63	
	103-3	Evaluation of the management approach	pp. 56; 61 - 63	
GRI 103: Management Approach – 2018	403-1	Occupational health and safety management system	pp. 61 - 63	
	403-2	Hazard identification, risk assessment, and incident investigation	pp. 61 - 63	
	403-3	Occupational health services	pp. 61 - 63	
	403-4	Worker participation, consultation, and communication on occupational health and safety	pp. 61 - 63	
	403-5	Worker training on occupational health and safety	pp. 61 - 63	
	403-6	Promotion of worker health	pp. 61 - 63	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pp. 61 - 63	
GRI 403: Occupational Health and Safety - 2018	403-9	Type of injuries and rate of injuries, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	p. 63	
Topic: Training and education				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 56; 59 - 60	
	103-3	Evaluation of the management approach	pp. 56; 59 - 60	
GRI 404: Training and education – 2016	404-1	Average hours of training per year per employee	p. 59	
Topic: Diversity and equal opportunities				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 56; 58 - 59	
	103-3	Evaluation of the management approach	pp. 56; 58 - 59	
GRI 405: Diversity and equal opportunities - 2016	405-1	Diversity of governance bodies and employees	p. 53; 58	
Topic: Non-discrimination				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 56; 58	
	103-3	Evaluation of the management approach	pp. 56; 58	
GRI 406: Non-discrimination – 2016	406-1	Incidents of discrimination and corrective actions taken	p. 56	
Topic: Supplier Social Assessment				
GRI 103: Management Approach - 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 68 - 70	
	103-3	Evaluation of the management approach	pp. 68 - 70	

GRI 414: Supplier Social Assessment – 2016	414-1	New suppliers that were screened using social criteria	pp. 69 - 70	
Topic: Customer Health and Safety				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 68 - 70	
	103-3	Evaluation of the management approach	pp. 68 - 70	
GRI 416: Customer Health and Safety – 2016	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p. 70	
Topic: Socioeconomic Compliance				
GRI 103: Management Approach – 2016	103-1	Explanation of the material topic and its Boundary	pp. 47 - 49	
	103-2	The management approach and its components	pp. 52 -53	
	103-3	Evaluation of the management approach	pp. 52 -53	
GRI 419: Socioeconomic Compliance - 2016	419-1	Non-compliance with laws and regulations in the social and economic area	In 2019, there were no significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.	

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 (hereinafter "Tesmec Group" or "Group") as of December 31, 2019 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 13rd, 2020 (hereinafter "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 in 2016 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.

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:

- 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;

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

- understanding of the following matters:

  (i) business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
  (ii) policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
  (iii) 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;

- 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 SAS 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:

  (iv) 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.

(v) for the following subsidiaries and sites, Tesmec S.p.A., offices and production site of Durtal for Groupe Marais SAS, which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, 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, 2019 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Other matters

The NFS for the year ended December 31, 2018, whose data are presented for comparative purposes, have been subject to a limited assurance engagement by another auditor that, on March 15th, 2019 expressed an unmodified conclusion.

DELOITTE & TOUCHE S.p.A.

Signed by
Lorenzo Rossi
Partner

Milan, Italy
March 30, 2020

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

(Euro in thousands)	Notes	31 December 2019	31 December 2018
NON-CURRENT ASSETS			
Intangible assets	6	20,419	17,998
Property, plant and equipment	7	42,397	45,337
Rights of use	8	20,144	-
Equity investments in associates evaluated using the equity method	9	3,984	3,976
Other equity investments		3	3
Financial receivables and other non-current financial assets	10	2,745	1,922
Derivative financial instruments	22	4	-
Deferred tax assets	30	11,889	11,816
Non-current trade receivables		516	831
TOTAL NON-CURRENT ASSETS		**102,101**	**81,883**
CURRENT ASSETS			
Work in progress contracts	11	16,320	11,023
Inventories	12	69,924	62,576
Trade receivables	13	67,929	52,562
of which with related parties:		5,518	2,712
Tax receivables	14	1,045	932
Other available-for-sale securities		2	1
Financial receivables and other current financial assets	15	12,081	10,390
of which with related parties:		4,072	4,373
Other current assets	16	9,214	13,249
Cash and cash equivalents	17	17,935	42,793
TOTAL CURRENT ASSETS		**194,450**	**193,526**
TOTAL ASSETS		**296,551**	**275,409**
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	18	10,708	10,708
Reserves	18	32,427	32,567
Group net profit / (loss)	18	2,967	28
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		**46,102**	**43,303**
Non-controlling interest in capital and reserves		36	19
Net profit / (loss) for the period attributable to non-controlling interests		14	16
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**50**	**35**
TOTAL SHAREHOLDERS' EQUITY		**46,152**	**43,338**
NON-CURRENT LIABILITIES			
Medium/long-term loans	19	23,972	25,671
Bond issue	20	24,765	24,651
Non-current financial liabilities from rights of use	21	15,407	-
Derivative financial instruments	22	6	35
Employee benefit liability	23	4,451	3,770
Deferred tax liabilities	30	5,771	5,927
Provisions for non-current risks and charges	24	88	67
Other long-term liabilities		625	-
Non-current trade payables		-	1
TOTAL NON-CURRENT LIABILITIES		**75,085**	**60,122**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	25	79,764	80,504
of which with related parties:		*2,158*	*2,325*
Current financial liabilities from rights of use	21	4,135	-
Derivative financial instruments	22	6	-
Trade payables	26	57,514	54,350
of which with related parties:		*3,143*	*2,377*
Advances from customers		3,641	4,145
of which with related parties:		*13*	55
Income taxes payable	27	1,807	1,295
Provisions for risks and charges	28	3,104	3,152
Other current liabilities	29	25,343	28,503
TOTAL CURRENT LIABILITIES		**175,314**	**171,949**
TOTAL LIABILITIES		**250,399**	**232,071**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**296,551**	**275,409**

Consolidated income statement

(Euro in thousands)	Notes	Financial period ended 31 December 2019	2018
Revenues from sales and services	31	**200,666**	**194,611**
of which with related parties:		*18,333*	*17,338*
Cost of raw materials and consumables	32	(88,037)	(89,081)
of which with related parties:		*(9)*	*(310)*
Costs for services	33	(35,375)	(32,581)
of which with related parties:		*(132)*	*(148)*
Payroll costs	34	(52,611)	(50,501)
Other operating (costs)/revenues, net	35	(4,668)	(11,282)
of which with related parties:		*(2,927)*	*(5,077)*
Amortisation and depreciation	36	(19,075)	(15,245)
Development costs capitalised	37	7,233	7,592
Portion of losses/(gains) from operational Joint Ventures evaluated using the equity method		241	164
Total operating costs		**(192,292)**	**(190,934)**
Operating income		**8,374**	**3,677**
Financial expenses	38	(6,628)	(5,991)
of which with related parties:		*(343)*	*(29)*
Financial income	39	2,424	2,553
of which with related parties:		*89*	*134*
Portion of losses/(gains) from associated companies and non-operational Joint Ventures evaluated using the equity method		24	67
Pre-tax profit/(loss)		**4,194**	**306**
Income tax	30	(1,213)	(262)
Net profit/ (loss) for the period		**2,981**	**44**
Profit/(loss) attributable to non-controlling interests		**14**	**16**
Group profit/(loss)		**2,967**	**28**
Basic and diluted earnings/(losses) per share		**0.277**	**0.003**

Consolidated statement of comprehensive income

(Euro in thousands)	Notes	Financial period ended 31 December 2019	2018
NET INCOME FOR THE PERIOD		**2,981**	**44**
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	18	694	1,139
Adjustment of deferred taxes		(213)	-
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
First-time adoption of IFRS 9	18	-	(641)
Income tax		-	150
		-	(491)
Actuarial profit/(loss) on defined benefit plans	23	(279)	84
Income tax		67	(20)
		(212)	64
Total other income/(losses) after tax		**269**	**712**
Total comprehensive income (loss) after tax		**3,250**	**756**
Attributable to:			
Shareholders of Parent Company		3,235	751
Non-controlling interests		15	5

Statement of consolidated cash flows

(Euro in thousands)	Notes	Financial period ended 31 December 2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		2,981	44
Adjustments to reconcile net income for the period with the cash flows generated by operating activities:			
Amortisation and depreciation	36	19,075	15,245
Provisions for employee benefit liability	23	595	408
Provisions for risks and charges / inventory obsolescence / doubtful accounts	12-13-14-28	2,165	1,037
Employee benefit payments	23	(250)	(210)
Payments/use of provisions for risks and charges	28	(171)	(367)
Net change in deferred tax assets and liabilities	29	(343)	(1,521)
Change in fair value of financial instruments	22	(27)	(112)
Change in current assets and liabilities:			
Trade receivables	13	(17,291)	(13,774)
of which with related parties:		*(2,848)*	*(186)*
Inventories	12	(12,903)	(3,083)
Trade payables	26	3,014	14,924
of which with related parties:		*766*	*11*
Other current assets and liabilities		2,093	12,932
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**(1,062)**	**25,523**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	7	(9,227)	(14,052)
Investments in intangible assets	6	(11,637)	(8,544)
Investments in rights of use	8	(2,932)	-
(Investments) / disposals of financial assets		(2,427)	438
of which with related parties:		*301*	*5,013*
Proceeds from sale of property, plant and equipment and intangible assets	6-7-8	3,921	8,776
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(22,302)**	**(13,382)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	19	16,556	20,181
Recognition of financial liabilities from rights of use	21	2,850	-
Repayment of medium/long-term loans	19	(8,049)	(17,166)
Repayment of financial liabilities from rights of use	21	(4,461)	-
Net change in short-term financial debt	19	(8,238)	8,472
of which with related parties:		*(167)*	*2,288*
Purchase of treasury shares	18	-	-
Dividend distribution	18	-	-
Change in the consolidation area	18	(436)	(2,250)
NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)		**(1,778)**	**9,237**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(25,142)**	**21,378**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		284	(72)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	17	42,793	21,487
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		**17,935**	**42,793**
Additional information:			
Interest paid		5,122	4,433
Income tax paid		787	566

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 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**3,185**	**19,929**	**(1,430)**	**43,107**	**1,725**	**44,832**
Profit/(loss) for the period	-	-	-	-	-	-	28	28	16	44
First-time adoption of IFRS 9						(491)		(491)		(491)
Other profits/(losses)	-	-	-	-	1,150	64	-	1,214	*(11)*	1,203
Total comprehensive income/(loss)								**751**	**5**	**756**
Allocation of profit for the period	-	-	-	-	-	(1,430)	1,430	-	-	**-**
Change in the consolidation area	-	-	-	-	-	(555)	-	(555)	(1,695)	(2,250)
Balance as at 31 December 2018	**10,708**	**2,141**	**10,915**	**(2,341)**	**4,335**	**17,517**	**28**	**43,303**	**35**	**43,338**
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**

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 December 2019

1. Company information

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

The publication of Tesmec's consolidated financial statements for the period ended 31 December 2019 was authorised by means of the resolution of the Board of Directors on 13 March 2020.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2019 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, statement of consolidated cash flows, statement of changes in consolidated shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2018 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 2018, also prepared according to the international accounting standards, with the exception of the principles 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 rounded to the nearest thousand, unless otherwise indicated.

Business continuity

These Financial Statements were prepared on a going concern basis, in that the Directors verified the ability of the Company and the Group to meet their obligations in the foreseeable future, also taking account of the information provided in note 47 below Significant events occurred after the close of the financial period and therefore concluding that this assumption is adequate in that there are no significant uncertainties as to the Company's ability to continue as a going concern. Risks and uncertainties relating to the business are described in the relevant sections of the Report on Operations.
A description of how the Company and the Group manage financial risks is provided in the section Management of financial risks of these Explanatory notes.

2.1 Adopted financial statement reporting formats

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

- in the consolidated income statement, it was decided to present a cost analysis by using a classification based on their nature;
- the statement of comprehensive income includes the result for the period and, by homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity;
- in the consolidated statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1;
- the statement of changes in consolidated shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the Group shareholders' equity;

- the statement of consolidated cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.

It should be noted that, in accordance with the above-mentioned resolution, the amounts of the positions or transactions with related parties and (positive and/or negative) income components resulting from non-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 statement of consolidated cash flows.

2.2 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements (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 Parent Company shareholders.
Associated companies are those in which the Group holds at least 20% of the voting rights or exercises a significant influence, but not control or joint control, on financial and operating policies. Equity investments in associates are evaluated using the equity method. Profit or loss attributable to Parent Company shareholders is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.
Joint ventures are defined on the basis of IFRS 11 that defines the financial reporting principles 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 equity method for the period in which the joint control was exercised.

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

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

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

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

- on 26 October 2019, Groupe Marais SA sold to the other shareholder the shares held in Marais Tunisie SA (49%); at the same time, the remaining shares in MIR SA (51%) were purchased. As a result of this transaction, the company Marais Tunisie SA was deconsolidated while MIR SA is a wholly owned subsidiary.

SUBSIDIARIES (consolidated on a line-by-line basis, by making clear the portion of equity and of non-controlling interests)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	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%	-
Marais Technologies SA	Durtal (France)	Euro	3,785,760	100.00%	-
Group Marais SA	Durtal (France)	Euro	3,700,000	-	100.00%
Marais Trenching (Pty) Ltd. AFS	Pretoria (South Africa)	South African Rand	500,000	-	80.00%
Tesmec Australia (Pty) Ltd (former Marais Laying Technologies (Pty) Ltd. Australie)	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)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	Directly	Indirectly
Locavert SA	Bouillargues (France)	Euro	403,735	39.00%	-
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)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	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 company financial years as at 30 June of each year. Financial statements used for evaluating the equity investment in accordance with the equity method refer to the most recent available interim closing of accounts, at a date close to the end of the reporting period of the Group.

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

Translation of foreign currency financial statements and of foreign currency items

The consolidated financial statements are presented in Euro, which is the functional and presentation currency adopted by the 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 of the financial statements of subsidiary companies expressed in foreign currency (exchange rate to 1 Euro) are shown below:

	Average exchange rate for the period ended 31 December		End-of-period exchange rate as at 31 December	
	2019	2018	2019	2018
US Dollar	1.1195	1.181	1.1234	1.145
Russian Rouble	72.4553	74.042	69.9563	79.715
South African Rand	16.1757	15.619	15.7773	16.459
Renminbi	7.7355	7.808	7.8205	7.875
Qatari Riyal	4.0749	4.299	4.0892	4.168
Algerian Dinar	133.6757	137.653	133.8916	135.488
Tunisian Dinar	3.2803	3.111	3.1390	3.430
Australian Dollar	1.6109	1.580	1.5995	1.622
New Zealand Dollar	1.6998	1.707	1.6653	1.706
CFA Franc	655.9570	655.957	655.9570	655.957
GNF Franc	10,276.301	10,640.613	10,556.054	10,402.100

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, 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 2019 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 2019.

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 principles

Business combinations and goodwill

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

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

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

Construction contracts

The construction contracts are activity deriving from the contract. A work order is a contract specifically negotiated for the construction of an asset according to the instructions of the company commissioning the work, which defines in advance the design and specifications.
Work order revenues include the considerations initially agreed with the company commissioning the work, in addition to variations in the commissioned work and to price changes provided for in the contract that can be measured reliably.

When the work order result can be measured reliably, work order revenues and costs are recognised as sales and as costs on the basis of the percentage of completion; the work in progress is calculated by referring to the costs of the work order borne until the end of the reporting period as a percentage of total costs estimated for each work order.
The costs borne in relation to future activities of the work order are excluded from the work order costs when calculating the work in progress and are recorded as inventories.
Total estimated costs for each work order are reviewed periodically, and when the costs of the work order are expected to be greater than its total revenues, the expected loss is recognised immediately as a cost.

Trade receivables and other current assets

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.
Other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. 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

With reference to the accounting standards in force from 1 January 2019, compared to those applicable for the 2018 financial year, the only significant effect is related to the adoption of **IFRS 16 "Leases"**. Several other amendments and interpretations are applied for the first time in 2019 but have no impact on the Group's consolidated financial statements.
The Group has not adopted in advance any other principle, interpretation or modification published but not yet in force.

- On 13 January 2016, the IASB issued the new standard **IFRS 16 - Leases**, which will replace standard IAS 17 – Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard provides a new definition of lease and introduces a criterion based on the notion of control (right of use) of an asset to distinguish lease contracts from service contracts, identifying the following as discriminating the lease: the identification of the asset, the right to replace it, the right to substantially obtain all of the economic benefits resulting from the use of the asset and, lastly, the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and measurement of the lease contracts for the lessee that requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt. By contrast, the standard does not include significant changes for the lessors.
  The Group used the practical expedient provided for the transition to IFRS 16 in order not to recalculate when a contract is or contains a lease. Therefore, the conclusion regarding the qualification of a contract as a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to contracts entered into or amended before 1 January 2019.
  The change in the definition of lease mainly refers to the criterion based on control ("right of use"). According to IFRS 16, a contract contains a lease if the customer has the right to control the use of an identified asset for a period of time in exchange for a payment. This concept is substantially different from the concept of "risks and rewards" to which significant attention is paid in IAS 17 and IFRIC 4.
  The Group applies the definition of lease and the related provisions of IFRS 16 for all lease contracts entered into or amended on or after 1 January 2019 (regardless of whether you are a lessee or lessor in each lease contract).
  In view of the first-time adoption of IFRS 16, the Group carried out a project to assess the potential impacts and implement IFRS 16. The Group has chosen to apply the standard retrospectively but has recognised the cumulative effect of applying the standard in shareholders' equity as at 1 January 2019 (by not changing the comparative figures for 2018), in accordance with paragraphs IFRS 16:C7-C13. In particular, the Group recorded, with regard to the lease contracts previously classified as operating:
  a) a financial liability, equal to the present value of the remaining future payments at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date;
  b) a right of use equal to the value of the financial liability at the transition date, net of any accruals and deferrals relating to the lease and recognised in the balance sheet at the end of the reporting period of these financial statements.

In order to assist in understanding the impact of first-time adoption of the standard, the table below provides a reconciliation between future commitments relating to lease contracts and the impact of the adoption of IFRS 16 as at 1 January 2019:

(Euro in thousands)		**1 January 2019**
Commitments for leases as at 31 December 2018	**A**	**25,652**
Exceptions to IFRS 16 recognition	B	(2,129)
Undiscounted financial liability for leases as at 1 January 2019	**C = A+B**	**23,523**
Discounting effect	D	(2,878)
Financial liability for leases as at 1 January 2019	**E = C+D**	**20,645**
Present value of finance lease liabilities as at 31 December 2018	F	(2,270)
Financial liability for additional leases due to the transition to IFRS 16 as at 1 January 2019	**G = E+F**	**18,375**

The following table shows the impacts of the adoption of IFRS 16 at the transition date:

(Euro in thousands)	**Impacts at the transition date (1 January 2009)**
NON-CURRENT ASSETS	
Rights of use	
Buildings - rights of use	16,954
Plant and machinery - rights of use	118
Other assets - rights of use	1,332
TOTAL NON-CURRENT ASSETS	**18,404**
CURRENT ASSETS	
Other current assets	(29)
TOTAL CURRENT ASSETS	**(29)**
TOTAL ASSETS	**18,375**
SHAREHOLDERS' EQUITY	
Group net profit / (loss)	-
TOTAL SHAREHOLDERS' EQUITY	**-**
NON-CURRENT LIABILITIES	
Non-current financial liabilities from rights of use	15,750
TOTAL NON-CURRENT LIABILITIES	**15,750**
CURRENT LIABILITIES	
Current financial liabilities from rights of use	2,625

TOTAL CURRENT LIABILITIES	**2,625**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**18,375**

The value of non-current assets relating to operating lease contracts was increased by the balance of prepaid expenses for an amount of Euro 29 thousand. The weighted average incremental borrowing rate applied to financial liabilities recognised as at 1 January 2019 was 4%.

In adopting IFRS 16, the Group made use of the exemption granted by paragraph IFRS 16:5(a) in relation to short-term leases for the following asset classes: computers, phones and tablets, printers and cars. Similarly, the Group made use of the exemption granted by IFRS 16:5(b) concerning lease contracts for which the underlying asset is a low-value asset (i.e. the asset underlying the lease contract does not exceed Euro 5 thousand, when new). The contracts for which the exemption was applied fell mainly within the following categories:

- Computers, phones and tablets;
- Printers;
- Other electronic devices;
- Furniture and fixtures.

For these contracts, the introduction of IFRS 16 did not result in the recognition of the financial liability of the lease and the related right of use, but the lease payments were recorded in the income statement on a straight-line basis for the duration of the respective contracts in the item "other costs" of the consolidated income statement.

Moreover, with reference to the transition rules, the Group made use of the following practical expedients available in the event of the choice of the modified retrospective transition approach:

- use of a single discount rate for lease portfolios with reasonably similar characteristics;
- use of the assessment carried out as at 31 December 2018 in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets in relation to the accounting of onerous contracts as an alternative to the application of the impairment test in accordance with IAS 36 on the value of the right of use as at 1 January 2019;
- classification of contracts that expire within 12 months of the transition date as short term leases. For these contracts, lease payments were recognised in the income statement on a straight-line basis;
- exclusion of initial direct costs from the measurement of the right of use as at 1 January 2019;
- use of the information present at the transition date to determine the lease term, with a special reference to the exercise of extension and early closure options.

For lease contracts previously classified as finance leases in accordance with IAS 17, the book value of the assets subject to the lease and the obligations arising from lease contracts recognised in accordance with IAS 17 as at 31 December 2018 are reclassified respectively under rights of use and lease liabilities without any adjustment, with the exception of the exemption for the recognition of low-value leases.

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

  The adoption of this amendment did not have any effect on the Group's consolidated financial statements.

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

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

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

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

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

- On 31 October 2018, IASB issued the document **"Definition of Material (Amendments to IAS 1 and IAS 8)"**. The document introduced a change in the definition of "material" contained in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims at making the definition of "material" more specific and introduced the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way that it has an effect on primary readers of financial statements similar to that which would have resulted had the information been omitted or misstated. The amendments introduced were approved on 29 November 2019 and apply to all transactions after 1 January 2020. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of this amendment.

- 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.

- 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 in addition to 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 (still in progress) 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 amendments are effective beginning on 1 January 2020, but companies may opt for earlier application. The directors do not expect effects on the Group's consolidated financial statements through the adoption of this amendment.

Accounting standards and interpretations issued 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 22 October 2018, the IASB issued the document "***Definition of a Business (Amendments to IFRS 3)***"**.** The document provides some clarifications regarding the definition of business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an acquired set of activities/processes and assets. However, it clarifies that to be considered a business, an acquired set of activities/processes and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create 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. Considering that this amendment will be applied to new acquisitions that will be concluded as from 1 January 2020, any effects will be recognised in the consolidated financial statements ended after that date.

- On 18 May 2017, the IASB issued the standard **IFRS 17 – Insurance Contracts** that will replace standard IFRS 4 – Insurance Contracts. The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from issued insurance contracts. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector. The directors do not expect a significant effect on the Group's consolidated financial statements through the adoption of this standard.

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

- 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 principle is not applicable.

3.5 Discretionary assessment and significant accounting estimates

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

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 factor

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 and the exchange-rate risk. The Group does not apply the Cash Flow Hedge Accounting with reference to such positions in that they do not meet the requirements provided in this regard by the IFRS.
The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

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

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

As at 31 December 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 7 thousand.

As at 31 December 2018, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 11.59 million, with a negative equivalent value of Euro 35 thousand.

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 2019 financial period (compared to 2018) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 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 2019 financial period (compared to 2018) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

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

With reference to the situation as at 31 December 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.

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

	Interests					
	31 December 2019			**31 December 2018**		
(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	152,835	(70)	21	127,970	(134)	13
Total Loans	**152,835**	**(70)**	**21**	**127,970**	**(134)**	**13**

(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	7,649	1	(1)	11,593	48	(9)
Total Derivative instruments	**7,649**	**1**	**(1)**	**11,593**	**48**	**(9)**
Total		**(69)**	**20**		**(86)**	**4**

* The residual debt is considered before amortised costs

	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2019									
(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	7,694	(7)	9	14	14	-	(9)	(14)	(9)	-
Total	**7,694**	**(7)**	**9**	**14**	**14**	**-**	**(9)**	**(14)**	**(9)**	**-**
	Financial period ended 31 December 2018									
(Euro in thousands)	**Notional value**	**Net FV**	**Net FV + 100 bps**	**Net FV + 100 bps**	**Impact on IS +100 bps**	**Impact on SE +100 bps**	**Net FV - 30 bps**	**Net FV -30 bps**	**Impact on IS - 30 bps**	**Impact on SE - 30 bps**
Derivative instruments hedging cash flows	11,593	(35)	44	78	78	-	(50)	(16)	(16)	-
Total	**11,593**	**(35)**	**44**	**78**	**78**	**-**	**(50)**	**(16)**	**(16)**	**-**

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.

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

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 2019 and to 2018 financial periods, with regard to financial instruments, by residual maturity, is set out below.

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	88,174	1,443	1,250	1,376	57,514	6	**149,763**
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	**127,835**	**4,503**	**25,000**	**3,107**	**57,514**	**8**	**217,971**

* The residual debt is considered before amortised costs

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

* 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 2019 and 31 December 2018).

Management of the exchange-rate risk

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

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

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

Exposure with regard to equity items	2019 Exposure in foreign currency (USD)			2019 Sensitivity	
	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	-	-	-	-	-

Exposure with regard to equity items	2018 Exposure in foreign currency (USD)			2018 Sensitivity	
	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	3,638	-	3,638	(159)	159
Financial receivables	16,855	-	16,855	(736)	736
Trade payables	-	(62)	(62)	3	(3)
Total gross exposure with regard to equity items	**20,489**	**(62)**	**20,489**	**(892)**	**892**
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	2018 Exposure in foreign currency (ZAR)			2018 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	36,091	-	36,091	(110)	110
Financial receivables	-	-	-	-	-
Total gross exposure with regard to equity items	**36,091**	**-**	**36,091**	**(110)**	**110**
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	2018 Exposure in foreign currency (AUD)			2018 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	4,334	-	4,334	(134)	134
Financial receivables	600	(14)	586	(18)	18
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**4,934**	**(14)**	**4,920**	**(152)**	**152**
Derivative instruments	-	-	-	-	-

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

Exposure with regard to equity items	2019 Exposure in foreign currency (RUB)			2019 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (RUB/000)	Income statement EUR/RUB exchange rate +5% (EUR/000)	Income statement EUR/RUB exchange rate -5% (EUR/000)
Trade receivables	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	-	-	-	-	-

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

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

Disclosures: categories of financial assets and liabilities 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.

	Current/Non-current assets	
(Euro in thousands)	**31/12/2019**	**31/12/2018**
NON-CURRENT ASSETS:		
Receivables and other financial assets	2,745	1,922
Derivative financial instruments	4	-
Non-current trade receivables	516	831
CURRENT ASSETS:		
Trade receivables	67,929	52,562
Other available-for-sale securities	2	1
Financial receivables	12,081	10,390
Cash and cash equivalents	17,935	42,793

	Current/non-current liabilities	
(Euro in thousands)	**31/12/2019**	**31/12/2018**
NON-CURRENT LIABILITIES:		
Financial payables	23,972	25,671
Bond issue	24,765	24,651
Non-current financial liabilities and rights of use*	15,407	-
Derivative financial instruments	6	35
Non-current trade payables	-	1
CURRENT LIABILITIES:		
Interest-bearing financial payables (current portion)	79,764	80,504
Current financial liabilities and rights of use*	4,135	-

Derivative financial instruments	6	-
Trade payables	57,514	54,350
Advances from customers	3,641	4,145

(*) Following the adoption of IFRS 16 as from 1 January 2019, this item includes:
- the effect of the recognition of a right of use, as envisaged by the above-mentioned standard, for contracts previously accounted for as operating leases in line with the previous IAS 17;
- the financial liability associated with contracts previously accounted for as finance leases in line with the previous IAS 17, previously classified under "Non-current financial payables" and "Current Interest-bearing financial payables".

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	2,745	-	-
Derivative financial instruments	4	-	4
Non-current trade receivables	516	-	-
Total non-current	**3,265**	**-**	**4**
Trade receivables	62,411	-	-
Trade receivables from related parties	5,518	-	-
Other securities	-	-	2
Financial receivables from third parties	8,009	-	-
Financial receivables from related parties	4,072	-	-
Cash and cash equivalents	-	17,935	-
Total current	**80,010**	**17,935**	**2**
Total	**83,275**	**17,935**	**6**
Financial liabilities:			
Medium/long-term loans	23,972	-	-
Bond issue	24,765	-	-
Non-current financial liabilities from rights of use	15,407	-	-
Derivative financial instruments	-	-	6
Total non-current	**64,144**	**-**	**6**
Interest-bearing financial payables (current portion)	77,606	-	-
Financial payables to related parties	2,158	-	-
Current financial liabilities from rights of use	4,135	-	-
Derivative financial instruments	-	-	6
Trade payables	54,371	-	-
Trade payables due to related parties	3,143	-	-

Advances from customers	3,628	-	-
Advances from customers to related parties	13	-	-
Total current	**145,054**	**-**	**6**
Total	**209,198**	**-**	**12**

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 2019**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Other available-for-sale securities	2	-	-	2
Total current	**2**	**-**	**-**	**2**
Financial assets:				
Derivative financial instruments	4	-	4	-
Total non-current	**4**	**-**	**4**	**-**
Total	**6**	**-**	**4**	**2**
Financial liabilities:				
Derivative financial instruments	6	-	6	-
Total non-current	**6**	**-**	**6**	**-**
Derivative financial instruments	6	-	6	-
Total current	**6**	**-**	**6**	**-**
Total	**12**	**-**	**12**	**-**

5. 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 interprofessional funds (for example: Fondimpresa and Fondirigenti); in that funds in the form of associations and the legal status of private-law entities, which are financed by contributions paid by the enterprises themselves.

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.

COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Non-current assets

6. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2019 and as at 31 December 2018 is indicated in the table below:

	31 December					
	2019			2018		
(Euro in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	62,437	(45,867)	16,570	52,854	(37,913)	14,941
Rights and trademarks	9,985	(7,538)	2,447	8,635	(6,349)	2,286
Other intangible assets	55	(31)	24	55	(27)	28
Assets in progress and advance payments to suppliers	1,378	-	1,378	743	-	743
Total intangible assets	**73,855**	**(53,436)**	**20,419**	**62,287**	**(44,289)**	**17,998**

The following table shows the changes in intangible assets for the period ended 31 December 2019:

(Euro in thousands)	01/01/2019	Increases due to purchases	Decreases	Amortisation	Exchange rate differences	31/12/2019
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**

As at 31 December 2019, intangible assets net of amortisation totalled Euro 20,419 thousand, up Euro 2,421 thousand due to the following effects:

- *development costs capitalised* of Euro 9,483 thousand, which were offset by amortisation for the period. These costs are related to projects for the development of new products and equipment that are expected to generate positive cash flows in future years, based on the requirements described in more detail in the section on the main accounting standards applied;
- amortisation for the period totalling Euro 9,197 thousand, of which Euro 7,879 thousand relating to development costs capitalised;
- The increase in "Rights and Trademarks" is mainly related to the AMG business unit as described below.

As already described, on 19 June 2019, Tesmec Rail S.r.l. finalised the lease contract of the business unit of Advanced Measuring Group S.r.l. (AMG), with effect from 1 July 2019, for an annual fee of Euro 250 thousand. The lease contract provides for an option to purchase the business unit for a total price of Euro 1,250 thousand, including the lease payments already paid, to be exercised from the fourth year of the lease.

The lease contract was recognised by virtue of the purchase option and as from 1 July 2019 as the purchase of the business unit, thus recording the identifiable assets and liabilities and the difference emerging with respect to the total value. The difference amounts to Euro 1,230 thousand and was allocated to intangible assets, under the item Rights and Trademarks, and amortised over 5 years.

Assets and liabilities at fair value are broken down below:

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

At the end of the reporting period, the Group carried out an analysis of the value of its intangible assets and, as no 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 2018:

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

7. Property, plant and equipment

The breakdown of Property, plant and equipment as at 31 December 2019 and as at 31 December 2018 is indicated in the table below:

	31 December					
	2019			2018		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Land	3,136	(147)	2,989	3,132	(147)	2,985
Buildings	22,191	(7,033)	15,158	21,625	(6,354)	15,271
Plant and machinery	16,841	(13,319)	3,522	17,062	(12,425)	4,637
Equipment	5,513	(4,468)	1,045	7,770	(6,011)	1,759
Other assets	45,195	(26,191)	19,004	41,533	(21,694)	19,839
Assets in progress and advance payments to suppliers	679	-	679	846	-	846
Total property, plant and equipment	**93,555**	**(51,158)**	**42,397**	**91,968**	**(46,631)**	**45,337**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2019:

(Euro in thousands)	01/01/2019	Increases due to purchases	Reclassifications	Change in the consolidation area	Decreases	Depreciation	Exchange rate differences	31/12/2019
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**

As at 31 December 2019, property, plant and equipment totalled Euro 42,397 thousand, down compared to the previous year by Euro 2,940 thousand. During the financial period, the Group made no significant investments, with the exception of those relating to normal operations. The change is mainly due both to changes in trencher machines registered in the fleet as Other assets - which was capitalised for Euro 6,953 thousand, following the drawing-up of new lease contracts offset by the sale of trencher machines and by depreciation for the period for a total of Euro 6,589 thousand.

Following the entry into force, as from 1 January 2019, of the new IFRS 16 Leases standard, the Group reclassified to the item *Rights of use* property, plant and equipment held under finance leases (consisting mainly of trencher machinery) previously accounted for in accordance with the previous IAS 17. The reclassification is a consequence of the Group's decision to adopt the simplified retrospective approach as the first-time adoption of the new IFRS 16 standard and not to change the comparative data.

At the end of the reporting period, the Group analysed the value of its property, plant and equipment and, as no indicators of impairment 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 2018:

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

8. Rights of use

The breakdown in *Rights of use* as at 31 December 2019:

	31 December					
	2019			2018		
(Euro in thousands)	Historical cost	Accum. depr.	Net value	Historical cost	Accum. depr.	Net value
Industrial Buildings - Right of use	17,870	(2,584)	15,286	-	-	-
Plant and machinery - Rights of use	475	(84)	391	-	-	-
Equipment - Rights of use	28	(3)	25	-	-	-
Other assets - Rights of use	6,270	(1,828)	4,442	-	-	-
Total rights of use	**24,643**	**(4,499)**	**20,144**	**-**	**-**	**-**

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	Reclass.	Increases	Decreases	Depreciation	Exchange rate differences	31/12/2019
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**

The item rights of use refers to the accounting required by IFRS 16 for operating leases as from 1 January 2019, as described in paragraph "3.4. New accounting standards, interpretations and amendments adopted by the Group".
The adoption of IFRS 16 introduced some elements of professional judgement that involve the definition of accounting policies and the use of assumptions and estimates, for example, in relation to the determination of the lease term.
During the second quarter of 2019, in the light of the above and following a more in-depth and precise analysis of the Group's contracts, the value of lease liabilities and the corresponding assets for rights of use was reduced by Euro 2,129 thousand.
As described above, in the current financial period, leased assets already recorded under Property, plant and equipment in previous financial years, amounting to Euro 2,743 thousand, were reclassified in this item.
The increases for the period mainly refer to lease contracts signed during 2019 and mainly relate to the use of property and motor vehicles by foreign subsidiaries.

At the end of the reporting period, the Group carried out an analysis of the value of its right-of-use assets and, as no indicators of impairment were found, it did not deem it necessary to test them for impairment .

9. 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 2019 and 2018 is indicated in the table below:

	31 December	
(Euro in thousands)	2019	2018
Associates:		
Locavert SA	527	550
Subtotal	**527**	**550**
Joint Ventures:		
Condux Tesmec Inc	3,221	3,124

Tesmec Peninsula WLL	236	133
Marais Tunisie SA	-	169
Subtotal	**3,457**	**3,426**
Total Equity investments in associates evaluated using the equity method	**3,984**	**3,976**

Following the application of the equity method to investments - accounting standard adopted by the Group on the Joint Ventures - the margin achieved by Tesmec S.p.A. on the machines sold to them and not yet transferred to third-party customers as at 31 December 2019 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 2019							
(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%	557	99	760	211	550	527	-
R&E Contracting	20.00%	18	(44)	10	48	(38)	-	38
Joint Ventures:								
Condux Tesmec Inc.	50.00%	2,960	(79)	4,246	1,067	3,179	3,221	-
Tesmec Peninsula	49.00%	2,131	244	3,127	2,932	195	236	
Marais Lucas Technologies Pty Ltd.	50.00%	-	(16)	198	1,945	(1,747)	-	1,791

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 13 March 2020.

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 impairment test derive from the plans examined by the Board of Directors held on 20 December 2019, prepared on the basis of an explicit forecast period of 3 years. These plans include the hiring of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depend on external variables not controllable by the management such as exchange rate and interest rate trends, infrastructure investments in the countries where the group operates, macropolitical 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 therefore do not include the effects, at present difficult to quantify, of the global spread of Covid-19, mentioned in paragraph 15. Business Outlook 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:

Subsidiary	**WACC**
Condux (JV)	8.36%
Tesmec Peninsula (JV)	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.

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 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 impairment risks.

10. 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 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Guarantee deposits	105	669
Financial receivables from third parties	2,640	1,253
Total financial receivables and other non-current financial assets	**2,745**	**1,922**

The item *Financial receivables from third parties* increased by Euro 1,387 thousand compared to the previous financial period and is 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

11. Work in progress contracts

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

(Euro in thousands)	31 December	
	2019	2018
Work in progress (Gross)	22,251	13,873
Advances from contractors	(5,931)	(2,850)
Work in progress contracts	**16,320**	**11,023**
Advances from contractors (Gross)	-	-
Work in progress (Gross)	-	-
Advances from contractors	**-**	**-**

"Work in progress" refers exclusively to the Rail segment where the machinery is produced in accordance with specific customer requirements.
"Work in progress" is recognised as an asset if, on the basis of an analysis carried out for each contract, the gross value of work in progress is greater than advances from customers; it is recognised as a liability if the advances are greater than the related work in progress. If the advances are not collected at the reporting date, the corresponding amount is recognised as trade receivables.
The increase is due to the needs related to the service of rail orders and is determined by the time difference between the operating progress reports of the orders and the achievement of the contractual conditions that allow invoicing. This increase is due to revenues from changes in work in progress, recorded by the Group for Euro 8,371 thousand, net of collections received as an advance on works.

12. Inventories

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

(Euro in thousands)	31 December	
	2019	2018
Raw materials and consumables	40,065	37,174
Work in progress	13,885	11,377
Finished products and goods for resale	15,033	13,459
Advances to suppliers for assets	941	566
Total inventories	**69,924**	**62,576**

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 11.7% of Euro 7,348 thousand thanks to an increased supply in order to be able to cope with the expected sales for the coming months.
The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2019 and 2018 are indicated below:

(Euro in thousands)	Financial period ended 31 December	
	2019	2018
Value as at 1 January	5,437	5,325
Provisions	700	106
Uses	(10)	(67)
Exchange rate differences	31	73
Total provisions for inventory obsolescence	**6,158**	**5,437**

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

13.Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Trade receivables from third-party customers	62,411	49,850
Trade receivables from related parties	5,518	2,712
Total trade receivables	**67,929**	**52,562**

For terms and conditions relating to receivables from related parties, refer to paragraph 41.

Trade receivables as at 31 December 2019 amounted to Euro 67,929 thousand up by Euro 15,367 thousand compared to the 2018 financial period.

The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of customer and country risk and by applying to each class an expected percentage of loss derived from historical experience. 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 2019 and 2018 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Value as at 1 January	2,406	2,295
First-time adoption of IFRS 9	-	641
Change in the consolidation area	6	-
Provisions	947	697
Uses	(792)	(1,223)
Reclassifications	349	-
Exchange rate differences	10	(4)
Total provisions for doubtful accounts	**2,926**	**2,406**

Provisions and uses related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.
Note that, in 2018, the Group recognised the effects deriving from the first-time adoption of IFRS 9 using the retrospective simplified method.

14. Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
IRAP receivables	241	156
IRES receivables	761	774
Other direct income taxes	43	2
Total tax receivables	**1,045**	**932**

The item *tax receivables* increased compared to the previous financial year of Euro 113 thousand mainly due to the increase in higher IRAP receivables of the subsidiary Tesmec Rail S.r.l.

15. 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 2019 and as at 31 December 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Financial receivables from related parties	4,072	4,373
Financial receivables from third parties	7,959	5,986
Other current financial assets	50	31
Total financial receivables and other current financial assets	**12,081**	**10,390**

The increase in *current financial assets* from Euro 10,390 thousand to Euro 12,081 thousand is mainly due to the increase in tax receivables from third parties.

These receivables also include the escrow account paid in 2019 in accordance with the pronouncement of the Lyon Court of Appeal in the current dispute with a former French distributor of Euro 1,922 thousand, and the sum, including interest, obtained following 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, of Euro 1,726 thousand, for which reference should be made to Note 43 Legal and Tax Disputes.

16. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2019 and as at 31 December 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Prepaid expenses	1,294	1,638
Accrued income	7	12
VAT credit	3,920	6,795
Other receivables	306	532
Advance to suppliers for services	391	415
Other tax receivables	3,296	3,857
Total other current assets	**9,214**	**13,249**

Other current assets were considered receivable and therefore were not subject to value adjustment.
VAT credit, which amounted to Euro 3,920 thousand as at 31 December 2019, decreased by Euro 2,875 thousand compared to 31 December 2018 in relation to the increase in sales for the period and, as a result, to more purchases of materials.
Other tax receivables includes the tax credit recognised for significant research and development expenses incurred by the Group in both Italy and France for the 2016, 2017 and 2018 financial periods. In particular, with reference to the tax credit on Research and Development activities in Italy, this is recorded on the basis of the provisions of the 2017 Budget Law (Italian Law 232/16) which changed the regulations of the tax benefit, introduced by the "Decreto Destinazione Italia" (Italian Law Decree no. 145/2013) as amended by Italian 2015 Stability Law (Italian Law 190/2014). As a whole, the value of the tax credit for the entire Tesmec Group both in Italy and in France amounted to Euro 2,542 thousand for 2019 and to Euro 3,661 thousand for 2018.

17. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Bank and post office deposits	17,889	42,764

Cash on hand	34	25
Other cash	12	4
Total cash and cash equivalents	**17,935**	**42,793**

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 amounts to Euro 17,935 thousand and decreased by Euro 24,858 thousand.
The stated values are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

18. Shareholders' Equity

Share capital and reserves

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Revaluation reserve	86	86
Extraordinary reserve+	33,266	28,935
Change in the consolidation area	(436)	(555)
Reserve for first-time adoption of IFRS 9	(491)	(491)
Severance indemnity valuation reserve	(710)	(498)
Network reserve	824	824
Retained earnings/(losses brought forward)	(11,807)	(6,736)
Bills charged directly to shareholders' equity		
on operations with entities under common control	(4,048)	(4,048)
Total other reserves	**16,684**	**17,517**

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

The *change in the consolidation area* includes the effect deriving from the deconsolidation of the company Marais Tunisie SA and the line-by-line consolidation of the company MIR SA.

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

The value of translation difference had a positive impact on Shareholders' Equity of Euro 693 thousand as at 31 December 2019.

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

Non-current liabilities

19. 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 2019 and as at 31 December 2018, with separate disclosure of total loan and current portion:

(Euro in thousands)	31 December			
	2019	of which current portion	2018	of which current portion
Simest UGF	141	141	424	283
ICCREA BANCA/BCC	1,173	465	1,639	465
Banco BPM	1,501	273	1,774	273
Credit Agricole Cariparma	442	442	1,318	1,318
Banca Monte dei Paschi di Siena	828	828	1,932	1,104
Banca Intesa San Paolo	-	-	379	379
Banco di Desio e della Brianza	193	193	650	457
Creval	-	-	85	85
BPER Banca	1,282	1,023	2,286	1,004
Banco di Desio e della Brianza	501	501	1,246	745
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	1,498	1,498	2,495	998
Unipol Banca	-	-	563	563
UBI Banca	-	-	338	338
Deutsche Bank	373	373	745	372
Banca Popolare di Sondrio	1,217	764	1,964	747
Banco BPM	1,733	334	2,061	327
Banco BPM	2,491	480	2,962	474
Credito Valtellinese Motore Impresa	601	601	-	-
ICCREA BANCA/BCC	2,591	493	-	-
BCC loan	469	468	-	-
Sparkasse loan	996	321	-	-
Credito Adesso Creval	247	247	740	493
Coamerica	2,372	276	2,598	2,598
Pret senior	1,045	1,045	2,090	1,045
ICCREA BANCA/BCC	3,000	900	1,000	1,000
BPI	75	50	125	50
ADEME	333	-	233	-
Wetppac Business Bank - New Zeland	-	-	34	20
Wetppac Business Bank - Australie	328	112	434	111
National Australian Bank Limited	300	100	392	98
BOQ Equipment Finance Limited	-	-	478	110
Flexigroup truck Isizu	52	14	-	-
Thorn Finance truck	30	7	-	-
UBI Banca	5,223	1,161	2,402	232
B.P. Bari loan	1,970	641	-	-
BCC Anagni loan	11	11	55	44
Total medium/long-term loans	**33,016**	**13,762**	**33,442**	**15,733**
less current portion	(13,762)		(15,733)	
Non-current portion of medium/long-term loans	**19,254**		**17,709**	
Medium/long-term loan due to Simest	8,718	4,000	6,875	-
less current portion	(4,000)		-	
Medium/long-term loan due to Simest	**4,718**		**6,875**	
Total medium/long-term loans	**23,972**	**17,762**	**24,584**	**15,733**
Non-current portion of finance leases			2,270	1,183

Less current portion	-		(1,183)	
Non-current portion of finance leases, net	**-**		**1,087**	
Total current portion		**17,762**		**16,916**
Medium/long-term loans	**23,972**		**25,671**	

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 the Tesmec Group, one financial covenant relating to the Net Financial Position/EBITDA ratio towards two credit institutions has not been met. However, this non-compliance resulted in the short-term recognition of the residual medium/long-term portion only of the loan outstanding with Istituto Bancario Mediocredito Centrale of Euro 500 thousand, in that only the current portion remains with the other bank. The Group has promptly started with Mediocredito Centrale the procedures to get the waiver for the year 2019 and, currently, the Group believes that there are reasons to believe that the waiver will be granted in the time frame strictly necessary. Moreover, also on the basis of the most updated forecasts regarding the performance for the current year, it is believed that as of the date of the next check for compliance with the covenants, there will be no further cases beyond those that occurred on 31 December 2019.

Finally, note that during 2019:
- new medium to long term loans were opened for a value of Euro 16,556 thousand;
- the non-current portion of the payable from finance lease of Euro 1,087 thousand, originally recognised according to the previous IAS 17, was reclassified under *Non-current financial liabilities from rights of use*.

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

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2019, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Residual value as at 31 December 2019	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Simest UGF	04-Feb-20	141	141	-	-
ICCREA BANCA/BCC	27-Mar-22	1,173	465	708	-
Banco BPM	30-Jun-25	1,501	273	1,091	137
Credit Agricole Cariparma	26-Mar-20	442	442	-	-
Banca Monte dei Paschi di Siena	30-Sep-20	828	828	-	-
Banco di Desio e della Brianza	10-May-20	193	193	-	-
BPER Banca	18-Mar-21	1,282	1,023	259	-
Banco di Desio e della Brianza	30-Apr-21	501	501	-	-
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	30-Jun-21	1,498	1,498	-	-
Deutsche Bank	28-Nov-20	373	373	-	-
Banca Popolare di Sondrio	31-Jul-21	1,217	764	453	-
Banco BPM 03838209 loan	31-Dec-24	1,733	334	1,399	-
Banco BPM 06052885 loan	31-Dec-24	2,491	480	2,011	-
Credito Valtellinese Motore Impresa	12-Aug-20	601	601	-	-
ICCREA BANCA/BCC	31-Mar-25	2,591	493	1,975	123

BCC loan	02-Jul-20	469	468	1	-
Sparkasse loan	31-Dec-22	996	321	675	-
Credito Adesso Creval	30-Apr-20	247	247	-	-
Coamerica	01-Apr-24	2,372	276	2,096	-
Pret senior	01-Apr-20	1,045	1,045	-	-
ICCREA BANCA/BCC	18-Oct-22	3,000	900	2,100	-
BPI	30-Jun-21	75	50	25	-
Ademe	01-Aug-22	333	-	333	-
Wetppac Business Bank - Australie	01-Oct-22	328	112	216	-
National Australian Bank Limited	01-Dec-22	300	100	200	-
Flexigroup truck Isizu	01-Feb-24	52	14	38	-
Thorn Finance truck	01-Feb-24	30	7	23	-
UBI Unione Banche Italiane	30-Jun-24	5,223	1,161	4,062	-
B.P. Bari loan	31-Dec-22	1,970	641	1,329	-
BCC Anagni loan	27-Mar-20	11	11	-	-
Total		**33,016**	**13,762**	**18,994**	**260**

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:

	Financial period ended 31 December			
(Euro in thousands)	**2019**	***of which with related parties and group***	**2018**	***of which with related parties and group***
Cash and cash equivalents	(17,935)		(42,793)	
Current financial assets	(12,083)	*(4,072)*	(10,391)	*(4,373)*
Current financial liabilities	79,764	*2,158*	80,504	*2,325*
Current financial liabilities from rights of use	4,135		-	
Current portion of derivative financial instruments	6		-	
Current financial indebtedness	**53,887**	***(1,914)***	**27,320**	***(2,048)***
Non-current financial liabilities	48,737	-	50,322	-
Non-current financial liabilities from rights of use	15,407		-	
Non-current portion of derivative financial instruments	6		35	
Non-current financial indebtedness	**64,150**	**-**	**50,357**	**-**
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 (*)	**118,037**	***(1,914)***	**77,677**	***(2,048)***
Current financial liabilities from rights of use	(4,135)		-	
Non-current financial liabilities from rights of use	(15,407)		-	
Net financial indebtedness before IFRS 16	**98,495**	***(1,914)***	**77,677**	***(2,048)***

* The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 of Report on Operations for the valuation criterion applied by Tesmec Group on these measures.

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.

The net financial indebtedness as at 31 December 2019 increased by Euro 40,360 thousand compared to the figure at the end of 2018; this increase of Euro 19,542 thousand refers to the first-time adoption of the new IFRS 16 and therefore represents a debt related to the commitments deriving from lease contracts in accordance with IFRS 16.
Without considering the adoption of IFRS 16, net financial indebtedness as at 31 December 2019 amounted to Euro 98,495 thousand, an increase of Euro 20,818 thousand compared to the end of 2018, mainly due to the increase in net working capital referred to above. Note that, as at 31 December 2019, *financial liabilities from rights of use* include Euro 1,362 thousand of residual payables relating to finance leases already recognised as components of net financial indebtedness in previous financial periods, in accordance with the previous IAS 17 standard. Therefore, without considering the adoption of IFRS 16 to operating leases only, net financial indebtedness as at 31 December 2019 would be Euro 99,857 thousand.

The table below shows the breakdown of the changes:

- increase in current financial indebtedness of Euro 26,567 thousand due to the:
  - decrease in current financial liabilities of Euro 740 thousand mainly due to (i) Euro 1,971 thousand relating to the decrease in the current portion of medium/long-term loans, and (ii) Euro 1,963 to the decrease in advances on export, net of (iii) Euro 4,000 thousand relating to the reclassification of the current portion of the loan due to SIMEST;
  - decrease in current financial assets and cash and cash equivalents of Euro 23,166 thousand;
  - increase in current financial liabilities from rights of use in accordance with IFRS 16 of Euro 4,135 thousand relating to the recognition in accordance with IFRS 16;
- increase in medium/long-term financial indebtedness of Euro 13,793 thousand relating to the recognition of non-current financial liabilities from rights of use in accordance with IFRS 16 of Euro 15,407 thousand.

20. Bond issue

The item relating to the *bond issue* amounted to Euro 24,765 thousand and increased by Euro 114 thousand compared to the previous year.
Note that this item includes:

- the "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. this bond issue will expire in the first half of 2021 and the Group has already begun refinancing initiatives with the support of the controlling shareholder.
- 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.

21. 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, as described in paragraph "3.4. New accounting standards, interpretations and amendments adopted by the Group".

(Euro in thousands)	**31 December 2019**	**FTA 1 January 2019**
Non-current financial liabilities from rights of use	15,407	15,750
Current financial liabilities from rights of use	4,135	2,625
Total financial liabilities from rights of use	**19,542**	**18,375**

In the current financial period, payables relating to finance leases, already recorded in previous financial periods, were reclassified in this item under *Medium/long-term loans* of Euro 1,087 thousand, and *Interest-bearing financial payables (current portion)*, of Euro 1,183 thousand, for the non-current and current portion, respectively.

22. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2019 and 2018 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	
							2019	**2018**
Credit Agricole Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	444,444	(2)	(8)
ICCREA BANCA/BCC	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	1,071,429	-	-
Banca Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	833,333	(2)	(12)
Banco BPM	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	687,500	(2)	(5)
Banco BPM	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	1,372,723	(3)	(4)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	375,000	-	-
BPER Banca	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	1,293,586	(3)	(6)
Banco BPM	CAP	Quarterly floating rate 1.5%	3-month Euribor	01/02/2019	30/06/2025	1,571,429	4	-
Assets for derivative instruments within the financial period							**-**	**-**
Assets for derivative instruments beyond the financial period							**4**	**-**
Liabilities for derivative instruments within the financial period							**(6)**	**-**
Liabilities for derivative instruments beyond the financial period							**(6)**	**(35)**

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.

23. 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 2019 and 31 December 2018 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Present value of the liability at the beginning of the period	3,770	3,656
Financial expense	57	47
Benefits accrued	595	361
Benefits paid	(250)	(210)
Loss (profit)	279	(84)
Present value of the liability at the end of the period	**4,451**	**3,770**

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)	**2019**	**2018**
Annual discount rate	0.70%	1.55%
Inflation rate	1.50%	1.50%
Expected turnover rate of employees	2.62%	2.62%
Advance rate	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	43	66
Reported value for liabilities with respect to defined benefit plans	3,860	3,445

Technical and demographic bases

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
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)	**2019**	**2018**
Advance frequency %	87.20%	0.87%
Turnover frequency %	166.67%	55.98%

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

	Financial period ended 31 December			
(average no. of employees)	**2019**	**2018**	**2019 vs 2018**	**%**
Tesmec S.p.A.	360	343	17	4.96%
Tesmec Rail S.r.l.	98	60	38	63.33%
Tesmec USA, Inc.	93	83	10	12.05%
Tesmec SA (Pty) LTD	20	16	4	25.00%
OOO Tesmec RUS	8	5	3	60.00%
Tesmec Automation S.r.l.	60	56	4	7.14%
Tesmec New Technology Beijing LTD	3	3	-	0.00%
Groupe Marais	145	149	(4)	-2.68%

Tesmec Australia Pty (Ltd) (former Marais Laying Technologies (Pty) Ltd. Australie)	32	32	-	0.00%
Marais Laying Technologies (Pty) Ltd. Nouvelle Zelande	69	72	(3)	-4.17%
Marais Cote d'Ivoire	19	24	(5)	-20.83%
Marais Trenching (Pty) Ltd. AFS	1	1	-	0.00%
MIR SA	2	-	2	100.00%
Total	**910**	**844**	**66**	**7.82%**

The average number of employees as at 31 December 2019 shows the growing trend of the Group.

24. 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 2019 and as at 31 December 2018 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Value as at 1 January	67	24
Provisions	21	43
Value as at 31 December	**88**	**67**

Current liabilities

25. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest-bearing financial payables (current portion)* for the 2019 and 2018 financial periods:

	31 December	
(Euro in thousands)	**2019**	**2018**
Advances from banks against invoices and bills receivables	45,960	47,923
Other financial payables (short-term leases)	-	1,183
Payables due to factoring companies	12,270	11,275
Current account overdrafts	1,189	1,825
Financial payables due to SIMEST	4,000	-
Short-term loans to third parties	425	187
Current portion of medium/long-term loans	13,762	15,733
Other short-term financial payables	2,158	2,378
Total interest-bearing financial payables (current portion)	**79,764**	**80,504**

Interest-bearing financial payables (current portion) decreased by Euro 740 thousand, mainly due a lower use of the export advance lines against a lower current portion of medium/long-term loans, offset by the reclassification to short-term portions of Euro 4,000 thousand relating to the financing transaction carried out by Simest S.p.A. in Marais Technologies SAS in the 2015 financial period and with maturity date 30 June 2020.
As at 31 December 2018, the item included, for Euro 1,183 thousand, the current portion of financial payables for leased assets, in accordance with the provisions of the previous IAS 17. In accordance with the new IFRS 16 standard, this payable, which as at 31 December 2019 amounted to Euro 692 thousand, is now included in the item *Current financial liabilities from rights of use*.

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.

26. Trade payables

The breakdown of *Trade payables* as at 31 December 2019 and as at 31 December 2018, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2019**	**2018**
Trade payables due to third-parties	54,371	51,973
Trade payables due to related parties	3,143	2,377
Total trade payables	**57,514**	**54,350**

Trade payables as at 31 December 2019 increased by Euro 3,164 thousand, 5.8% compared to the previous financial period as a result of a higher volume of purchases due to the increase in sales.
This figure includes payables related to the normal course of business by the Group, in particular the purchase of raw materials and outsourced works.
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.

27. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2019 and as at 31 December 2018, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2019**	**2018**
Current IRES tax liabilities	1,130	828
Current IRAP tax liabilities	539	344
Other current taxes	138	123
Total income taxes payable	**1,807**	**1,295**

IRES and IRAP tax liabilities as at 31 December 2019 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. Some overdue positions are being settled.

28. Provisions for risks and charges

Provisions for risks and charges refers in part to the provision for product warranties , 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 labour and that for spare parts used.
Changes in the item as at 31 December 2019 and as at 31 December 2018 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Value as at 1 January	3,152	3,321
Change in the consolidation area	21	-

Provisions	497	234
Reclassifications	(401)	(55)
Uses	(171)	(362)
Exchange-rate differences	6	14
Value as at 31 December	**3,104**	**3,152**

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.

29. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2019 and 31 December 2018:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Due to social security	1,845	1,895
Due to INAIL (National Insurance Institute for Industrial Accidents)	280	242
Due to trade funds	436	200
Due to employees and collaborators	4,213	4,090
Guarantee deposits payable	155	(265)
Due to others	3,163	3,133
Accrued expenses and liabilities	12,526	17,075
Other current taxes	2,725	2,133
Total other current liabilities	**25,343**	**28,503**

Other current liabilities decreased compared to the prior financial period of Euro 3,160 thousand and refers to the decrease in accrued expenses and liabilities of Euro 4,549 thousand.
This item includes certain past due pension liabilities that are being settled.

30. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2019 and 2018:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Deferred tax assets	11,889	11,816
Deferred tax liabilities	5,771	5,927

The breakdown of net deferred taxes as at 31 December 2019 and 2018 is shown in the following table by type by listing the items that present underlying temporary differences:

(Euro in thousands)	31 December Statement of financial position		31 December Shareholders' equity		Financial period ended 31 December Income statement	
	2019	2018	2019	2018	2019	2018
Deferred tax assets						
Reversals of intangible assets	6	36	-	-	(30)	(12)
Obsolescence fund	1,348	1,230	6	(42)	112	40
Provisions for future risks and charges	42	-	-	-	42	-
Unrealised exchange-rate losses	973	1,021	1	-	(49)	83
Tax effect on UCC gain reversals	90	151	-	-	(61)	(48)
Tax effect on intercompany margin adjustments	1,161	1,077	(6)	9	90	2
Deferred tax assets of Tesmec USA for tax losses	1,541	2,163	(273)	(504)	(349)	57
Deferred tax assets of Bertel for tax losses	820	974	(103)	184	(51)	(482)
Deferred tax assets of Marais Group for tax losses	2,030	2,318	(142)	221	(146)	1,277
Deferred tax assets of Tesmec Australia for tax losses	2,031	1,280	24	-	727	-
Other temporary differences	1,847	1,566	420	566	(139)	14
Total deferred tax assets	**11,889**	**11,816**	**(73)**	**434**	**146**	**931**
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,486)	(1,401)	(1)	-	(84)	(132)
Difference of value - USA building	(153)	(155)	(3)	(6)	5	5
Capitalisation of Development costs Tesmec USA	(347)	(286)	(6)	(15)	(55)	59
Deferred tax liabilities Tesmec USA	(794)	(879)	85	(39)	-	29
Profits allocated to network reserve	(218)	(218)	-	-	-	-
Tax effect on intercompany margin adjustments	(70)	(5)	(8)	(9)	(57)	31
Deferred tax liabilities of Marais Group	(2,367)	(2,954)	362	122	225	235
Other temporary differences	(336)	(29)	(304)	(3)	(3)	(1)
Total deferred tax liabilities	**(5,771)**	**(5,927)**	**125**	**50**	**31**	**226**
Net effect on Shareholders' Equity						
Net balance deferred wealth taxes	**6,118**					
Represented in the income statement as follows:						
Deferred tax assets	**146**					
Deferred tax liabilities	**31**					
Deferred tax liabilities, net	**177**					

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 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 2019 and 2018 are summarised below:

(Euro in thousands)	Financial period ended 31 December 2019	2018
Consolidated pre-tax profits	**4,194**	**306**
Current taxation:		
Italy	(1,104)	(1,304)
USA	(39)	(13)
Rest of the world	(247)	(102)
Deferred tax (liabilities)/assets		
Italy	(86)	(580)
USA	(590)	184
Rest of the world	853	1,553
Total Income taxes	**(1,213)**	**(262)**

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:

(Euro in thousands)	Financial period ended 31 December 2019	2018
Profit before tax	**4,194**	**306**
IRES tax rate in force during the period	24.00%	24.00%
Theoretical tax charge	**(1,007)**	**(73)**
IRAP	**(428)**	**(492)**
Permanent tax differences	43	168
Effect of different tax rate for foreign companies	179	135
Total difference	**222**	**303**
Total tax charge as per income statement	**(1,213)**	**(262)**

Comments to the main items in the income statement

31. Revenues from sales and services

In the 2019 and 2018 financial periods, revenues from sales and services amounted to Euro 200,666 thousand and Euro 194,611 thousand, respectively. The breakdown is set below:

(Euro in thousands)	Financial period ended 31 December 2019	2018
Sales of products	149,696	143,571
Services rendered	42,599	45,786
	192,295	**189,357**
Changes in work in progress	8,371	5,254
Total revenues from sales and services	**200,666**	**194,611**

The Group realised in 2019 revenues of Euro 200,666 thousand against a figure of Euro 194,611 thousand in 2018 up by 3.1%. The trend of the three segments is shown below:

- **Energy**
  The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded an increase in revenues by Euro 2,505 thousand (+6.0%) from Euro 41,739 thousand as at 31 December 2018 to Euro 44,244 thousand as at 31 December 2019. In particular, the Energy-Automation segment achieved revenues of Euro 12,308 thousand, an increase of 29.2% compared to Euro 9,528 thousand as at 31 December 2018, in line with the growth prospects for the year for this segment.

- **Trencher**
  Trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, trenches for laying cables and for earth moving works recorded revenues of Euro 125,306 thousand in line with revenues of Euro 125,454 thousand recorded as at 31 December 2018.
  During the period, the good performance of the American market and the start of business in the mining and 5G sectors in USA, Africa, UK and France, were confirmed.

- **Rail**
  Machines and integrated systems for the installation, maintenance and diagnostics of the railway catenary wire system, plus customised machines for special operations on the line recorded an increase in revenues by 13.5% compared to the previous year. Revenues as at 31 December 2019 amounted to Euro 31,117 thousand compared to Euro 27,418 thousand of the previous year. The increase is attributable to the performance of the contracts in place with RFI and TEM FERRO on the French market.

32. Cost of raw materials and consumables

For the financial periods as at 31 December 2019 and 31 December 2018, cost of raw materials and consumables amounted to Euro 88,037 thousand and Euro 89,081 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Cost for the purchase of raw materials and consumables	96,865	87,372
Change in inventories	(8,828)	1,709
Total cost of raw materials and consumables	**88,037**	**89,081**

Cost of raw materials and consumables decreased by Euro 1,044 thousand (-1.2%) in inverse proportion to the increase in sales volumes (+3.1%). In this regard, note that at 31 December 2018, these costs include non-recurring costs relating to an accident at an Australian site of Euro 1,595 thousand.

33. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2019 and in 2018 to Euro 35,375 thousand and Euro 32,581 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Transport, customs and incidental expenses	7,730	6,508
Outsourced work service	5,990	5,178
External production services	568	185
Services for legal, tax, technical and other consultancy	5,992	5,992
Banking services	742	800
Insurance	1,197	1,019
Energy, water, gas, telephone expenses and postage	1,544	1,668
Board and lodging expenses and travelling allowance	4,321	4,431
Directors' and Auditors' fees	911	1,047
Advertising and other selling expenses	1,020	906

Maintenance services	1,284	1,427
Commissions and additional expenses	2,516	2,050
Other general expenses	1,560	1,370
Total costs for services	**35,375**	**32,581**

The increase in costs for services (+8.6%) is due to the increase in *transport, customs and incidental expenses* of Euro 1,222 thousand and *outsourced work service* of Euro 812 thousand in relation to the increase in revenues.

34. Payroll costs

During the financial periods ended 31 December 2019 and 31 December 2018, payroll costs amounted to Euro 52,611 thousand and Euro 50,501 thousand, respectively, up by 4.2%.

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Wages and salaries	40,687	34,244
Social security charges	8,922	13,669
Employee severance indemnity	1,637	1,363
Other personnel costs	1,365	1,225
Total payroll costs	**52,611**	**50,501**

The 4.2% increase in this item is related to the increase in service activities in Group revenues in relation to the pursuit of the Company's strategy, in the search for new technology businesses (Rail), and in international growth with the strengthening in all markets in which Marais is the leader (Africa, Australia, New Zealand, etc.)

35. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2019 and 31 December 2018, other operating (costs)/revenues, net amounted to Euro 4,668 thousand and Euro 11,282 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Provisions for risks and other net provisions	1,374	1,394
Rents	2,530	8,080
Hiring	2,991	4,000
Other lease and rental expenses	1,122	1,030
Sundry taxes	813	812
Other revenues	(3,679)	(4,304)
Other	(483)	270
Total other operating revenues, net	**4,668**	**11,282**

Other operating (costs)/revenues, net decreased by Euro 6,614 thousand as a consequence of the adoption of IFRS 16 that envisages the reversal of rent and lease payments against the recognition of depreciation on the rights of use of leased assets and financial expenses. The costs for Rentals of Euro 2,530 thousand, Hiring of Euro 2,991 thousand, as well as Other lease and rental expenses of Euro 1,122 thousand are recognised in the income statement in that the relative contracts do not meet the requirements of IFRS 16 for their recognition as rights of use.

The item other revenues includes the value of the benefit of the tax credit for 2019 of Euro 2,338 thousand compared to Euro 2,894 thousand for 2018.

The item representing the Provisions for risks and other net provisions of Euro 1,374 thousand includes the provision to the allowance for doubtful receivables of Euro 947 thousand and the provision for risks amounting to Euro 428 million.

36. Amortisation and depreciation

During the financial periods ended 31 December 2019 and 31 December 2018, amortisation and depreciation amounted to Euro 19,075 thousand and Euro 15,245 thousand, respectively, with a 25.1% increase, as a result of the adoption of IFRS 16, to which reference has already been made.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Amortisation of intangible assets	9,197	8,801
Depreciation of property, plant and equipment	6,011	6,444
Depreciation of right of use	3,867	-
Total amortisation and depreciation	**19,075**	**15,245**

37. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2019 and 31 December 2018 amounted to Euro 7,233 thousand and Euro 7,592 thousand, respectively.
The Group continued to develop the projects for the launch of new models and new functionalities of own products, which are requested by the markets, in order to maintain its leader sector position.

38. Financial expenses

During the financial periods ended 31 December 2019 and 31 December 2018, financial expenses amounted to Euro 6,628 thousand and Euro 5,991 thousand. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Bank interests expense	522	478
Interests payable for factoring and billing discounts	783	354
Interests payable on interest-bearing medium/long-term loans and borrowings	2,720	2,339
Interests payable on advance loans on exports	328	275
Other sundry financial expenses	553	375
Financial expenses on lease contracts	-	107
Financial expenses on rights of use	817	-
Realised foreign exchange losses	433	886
Unrealised foreign exchange losses	473	1,173
Fair value adjustment of derivative instruments	(1)	4
Total financial expenses	**6,628**	**5,991**

Financial expenses shows an increase compared to the previous financial period of Euro 637 mainly due to financial expenses on rights of use of Euro 710 thousand recorded following the adoption of IFRS 16.

39. Financial income

During the financial periods ended 31 December 2019 and 31 December 2018, financial income amounted to Euro 2,424 thousand and Euro 2,553 thousand, respectively.

The breakdown of the item is as follows:

(Euro in thousands)	Financial period ended 31 December	
	2019	2018
Interests from banks	100	48
Realised foreign exchange gains	359	709
Unrealised foreign exchange gains	1,355	1,560
Fair value adjustment of derivative instruments	26	58
Sundry income	584	178
Total financial income	**2,424**	**2,553**

Financial income decreased by Euro 129 thousand compared to the previous financial period mainly due to lower realised and unrealised foreign exchange gains totalling Euro 555 thousand.

40. 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);
- 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									
	2019					2018				
(Euro in thousands)	Energy	Trencher	Rail	Not allocated	Consolidated	Energy	Trencher	Rail	Not allocated	Consolidated
Intangible assets	9,000	4,371	7,048	-	20,419	9,674	4,258	4,066	-	17,998
Property, plant and equipment	1,421	32,960	8,016	-	42,397	2,005	35,354	7,978	-	45,337
Rights of use	1,166	18,011	967	-	20,144	-	-	-	-	-
Financial assets	3,224	2,029	1	1,482	6,736	3,123	2,329	1	448	5,901
Other non-current assets	1,280	4,916	164	6,045	12,405	1,271	4,146	92	7,138	12,647
Total non-current assets	**14,925**	**44,276**	**15,229**	**7,527**	**102,101**	**16,073**	**46,087**	**12,137**	**7,586**	**81,883**
Work in progress contracts	-	-	16,320	-	16,320			11,023	-	11,023
Inventories	18,424	48,545	2,955	-	69,924	16,920	43,444	2,212	-	62,576
Trade receivables	12,067	46,204	9,658	-	67,929	11,370	34,605	6,587	-	52,562
Other current assets	1,508	2,689	7,411	10,734	22,342	2,397	3,859	8,953	9,363	24,572

Cash and cash equivalents	1,434	1,579	7,758	7,164	17,935	880	1,487	18,517	21,909	42,793
Total current assets	**33,433**	**99,017**	**44,102**	**17,898**	**194,450**	**31,567**	**83,395**	**47,292**	**31,272**	**193,526**
Total assets	**48,358**	**143,293**	**59,331**	**25,425**	**296,551**	**47,640**	**129,482**	**59,429**	**38,858**	**275,409**
Shareholders' equity attributable to parent company shareholders	-	-	-	**46,102**	**46,102**	-	-	-	**43,303**	**43,303**
Shareholders' equity attributable to non-controlling interests	-	-	-	**50**	**50**	-	-	-	**35**	**35**
Non-current liabilities	**2,209**	**8,162**	**7,166**	**57,548**	**75,085**	**1,153**	**5,834**	**3,047**	**50,088**	**60,122**
Current financial liabilities	1,609	6,395	11,287	60,479	79,770	986	7,045	8,604	63,869	80,504
Current financial liabilities from rights of use	256	1,447	53	2,379	4,135	-	-	-	-	-
Trade payables	14,507	34,201	8,806	-	57,514	12,896	28,653	12,801	-	54,350
Other current liabilities	1,376	7,118	14,968	10,433	33,895	1,688	9,898	17,592	7,917	37,095
Total current liabilities	**17,492**	**47,714**	**35,061**	**70,912**	**175,314**	**15,570**	**45,596**	**38,997**	**71,786**	**171,949**
Total liabilities	**19,701**	**55,876**	**42,227**	**128,460**	**250,399**	**16,723**	**51,430**	**42,044**	**121,874**	**232,071**
Total shareholders' equity and liabilities	**19,701**	**55,876**	**42,227**	**174,612**	**296,551**	**16,723**	**51,430**	**42,044**	**165,212**	**275,409**

	Financial period ended 31 December							
	2019				2018			
(Euro in thousands)	**Energy**	**Trencher**	**Rail**	**Consolidated**	**Energy**	**Trencher**	**Rail**	**Consolidated**
Revenues from sales and services	44,244	125,306	31,116	200,666	41,739	125,454	27,418	194,611
Operating costs net of depreciation and amortisation	(38,654)	(108,660)	(25,903)	(173,217)	(36,921)	(115,472)	(23,296)	(175,689)
EBITDA*	**5,590**	**16,646**	**5,213**	**27,449**	**4,818**	**9,982**	**4,122**	**18,922**
Amortisation and depreciation	(6,135)	(9,193)	(3,747)	(19,075)	(4,874)	(7,687)	(2,684)	(15,245)
Total operating costs	**(44,789)**	**(117,853)**	**(29,650)**	**(192,292)**	**(41,795)**	**(123,159)**	**(25,980)**	**(190,934)**
Operating income	**(545)**	**7,453**	**1,466**	**8,374**	**(56)**	**2,295**	**1,438**	**3,677**
Net financial income/(expenses)				(4,180)				(3,371)
Pre-tax profit/(loss)				**4,194**				**306**
Income tax				(1,213)				(262)
Net profit/ (loss) for the period				**2,981**				**44**
Profit/(loss) attributable to non-controlling interests				14				16
Group profit/(loss)				**2,967**				**28**

(*****) The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 of Report on Operations for the valuation criterion applied by Tesmec Group on these measures.

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.

41. 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 2019, the breakdown of each related party is indicated below:

	31 December					31 December				
	2019					2018				
(Euro in thousands)	**Trade receivables**	**Current financial receivables**	**Current financial payables**	**Trade payables**	**Advances from customers**	**Trade receivables**	**Current financial receivables**	**Current financial payables**	**Trade payables**	**Advances from customers**
Associates:										
Locavert S.A.	422	-	-	-	-	43	-	-	3	-
R&E Contracting (Pty) Ltd.	-	230	-	-	-	-	180	-	-	-
Subtotal	**422**	**230**	**-**	**-**	**-**	**43**	**180**	**-**	**3**	**-**
Joint Ventures:										
Condux Tesmec Inc.	2,187	425	-	2	-	394	656	-	-	-
Tesmec Peninsula	147	2,060	1,658	-	-	174	2,022	1,995	-	-
Marais Tunisie	-	1	-	-	-	-	1	-	-	-
Marais Lucas	-	794	-	-	-	-	794	-	-	-
Subtotal	**2,334**	**3,280**	**1,658**	**2**	-	**568**	**3,473**	**1,995**	**-**	**-**
Related parties:										
Ambrosio S.r.l.	-	-	-	9	-	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	-	1	-	-	-	-	4	-
Dream Immobiliare S.r.l.	-	562	-	51	-	-	720	-	273	-
Fi.ind.	-	-	-	-	-	27	-	-	-	-
TTC S.r.l.	-	-	-	61	-	-	-	-	113	-
M.T.S. Officine meccaniche S.p.A.	1,532	-	500	3,019	-	145	-	330	1,459	-
MTS4SERVICE USA LLC	1,230	-	-	-	13	1,874	-	-	525	55
Comatel	-	-	-	-	-	55	-	-	-	-
Subtotal	**2,762**	**562**	**500**	**3,141**	**13**	**2,101**	**720**	**330**	**2,374**	**55**
Total	**5,518**	**4,072**	**2,158**	**3,143**	**13**	**2,712**	**4,373**	**2,325**	**2,377**	**55**

(Euro in thousands)	Financial period ended 31 December 2019					Financial period ended 31 December 2018				
	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.	588	(9)	-	178	6	(145)	-	(3)	-	-
Subtotal	**588**	**(9)**	**-**	**178**	6	**(145)**	**-**	**(3)**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	3,762	-	(33)	-	11	3,515	-	(9)	170	9
Tesmec Peninsula	304	-	-	-	46	250	(310)	(35)	-	50
Subtotal	**4,066**	**-**	**(33)**	**-**	**57**	**3,765**	**(310)**	**(44)**	**170**	**59**
Related parties:										
Ambrosio S.r.l.	-	-	-	(9)	(2)	-	-	-	(14)	-
Ceresio Tours S.r.l.	-	-	(9)	-	-	-	-	(8)	-	-
Dream Immobiliare S.r.l.	-	-	-	(14)	(307)	-	-	-	(2,085)	-
Fi.ind.	-	-	-	27	-	-	-	-	54	-
TTC S.r.l.	-	-	(94)	-	-	-	-	(99)	-	-
M.T.S. Officine meccaniche S.p.A.	9,564	-	5	(2,557)	(8)	5,849	-	6	(2,693)	26
MTS4SERVICE USA LLC	4,006	-	-	(552)	-	7,649	-	-	(509)	20
Comatel	109	-	(1)	-	-	220	-	-	-	-
Subtotal	**13,679**	**-**	**(99)**	**(3,105)**	(317)	**13,718**	**-**	**(101)**	**(5,247)**	**46**
Total	**18,333**	**(9)**	**(132)**	**(2,927)**	**(254)**	**17,338**	**(310)**	**(148)**	**(5,077)**	**105**

- Locavert S.A.: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: Financial income and expenses includes financial expenses of the rentals for the Building of Grassobbio and Endine of Euro 307 thousand.
- M.T.S. Officine meccaniche S.p.A. and MTS4SERVICE USA L.L.C.: revenues amounting to Euro 9,564 thousand and Euro 4,006 thousand, respectively, are mainly related to the operation started in 2017 and to the sale of semi-finished products.

Relations with the related party MTS and its American subsidiary MTS4 Service continued during the 2019 financial period based on the agreements signed on 27 October 2017, which involved the sale of a further 11 trencher machines for a total of Euro 9.7 million, revenues from ancillary services of Euro 1.4 million and costs for rental activities of Euro 3.2 million.

The remaining Euro 2.4 million of revenues relate to the sale of semi-finished products, for which the Tesmec Group is a historic supplier of MTS Officine meccaniche S.p.A.

As at 31 December 2019, a total of 42 machines were sold in 2017 for a total value of Euro 32.8 million, of which Euro 31.8 million was collected, revenues from ancillary services amounted to Euro 1.9 million of which Euro 0.4 million was collected, whereas costs for rental activities totalled Euro 7.0 million, of which Euro 4.3 million was paid.

42. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2019:

Board of Directors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	465,808	-	465,808
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	34,192	-	34,192
Simone Andrea Crolla	Director	21,288	-	21,288
Emanuela Teresa Basso Petrino	Director	29,519	-	29,519
Guido Luigi Traversa	Director	21,288	-	21,288
Guido Corbetta	Director until 16 April 2019	5,808	-	5,808
Gioacchino Attanzio	Director until 16 April 2019	8,712	-	8,712
Sergio Arnoldi	Director until 16 April 2019	6,041	-	6,041

Board of Statutory Auditors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Simone Cavalli	Chairman	39,821	-	39,821
Stefano Chirico	Statutory Auditor	26,468	-	26,468
Alessandra De Beni	Statutory Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2019 financial period amounted to Euro 412 thousand (Euro 352 thousand in the 2018 financial period).

43. Legal and tax disputes

With reference to an ongoing dispute with a French former distributor, on 14 February 2019, the Lyon Court of Appeal, significantly reviewing the favourable judgement in first instance, ordered Tesmec to pay Euro 2.1 million for various reasons, including the alleged violation of the exclusivity clause and the alleged unjustified breach of the distribution contract. Tesmec, in compliance with the pronouncement of the Lyon Court of Appeal, made the payment into a special escrow account, according to the French practice. On 22 July 2019, the appeal to the Court of Cassation was filed, and in parallel, on 20 August 2019, the action for repeal before the Lyon Court of Appeal was filed. With reference to this case, no provision was made for risks, having obtained the opinion of the legal advisors appointed to assist Tesmec, according to whom the Company's position is well-grounded since there is evidence in this regard of the correct behaviour of the Company and the consequent confirmation of the favourable judgement in first instance, as well as the prompt repayment of the amount paid into the escrow account in 2020.

In March 2018, Tesmec carried out the arbitration award obtained at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) and obtained the payment of more than Euro 1.3 million (principal, interest, legal costs) on the current account of the execution Judge treasury at the Beijing Court for a receivable claimed from a trading company. Due to the restrictions imposed by the current currency rules, the Judge was identified as the "trustee" to receive the payment made by the Chinese counterparty and then pay into the Tesmec account. Before the Judge could order the transfer, the counterparty filed an application for seizure of the sums, granted by the Judge against the filing of counterclaim for compensation for alleged damages for which the Chinese counterparty is seeking refund, jointly and severally, from Tesmec and a Chinese company that at the time was responsible for certain import procedures. On 7 January 2020, the lawsuit for damages was dismissed.

In the meantime, since the Beijing Ordinary Court recognised the CIETAC international arbitration court (which has already issued a favourable arbitration award as for the previous contracts) as the competent jurisdiction for the payment of further Euro 491 thousand, Tesmec started new arbitration proceedings against the trading company.
The fact that CIETAC has been granted jurisdiction is favourable for the Company in the opinion of the lawyers since the activation of a second CIETAC arbitration that has already analysed in the first proceedings the case of a contract on cross-appeal, recognising the performance of the supply of Tesmec, will probably lead to the confirmation of the analysis already carried out by the Board with order of Chinese counterparty to pay the main amount plus penalties.

In April 2019, the parent company Tesmec S.p.A. received an injunction from the Court of Milan to pay Euro 0.25 million to a French company, in performance of some contractual agreements dating back to the years 2015-2017. Tesmec opposed this decree in June 2019 and, pointing out its own reconstruction of the facts and relations, it appeared in court and at the same time filed a counterclaim for damages caused by the counterparty. By order of 25 February 2020, the Appointed Judge adjourned the hearing to 23 June 2020 but granted provisional enforcement of the opposed injunction. In order to prevent the dispute from dragging on, the Company mandated its lawyers to enter into negotiations with the counterparty in order to reach a settlement, for which a provision for risks was made.

During June 2019, a tax audit by the Italian Inland Revenue 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 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.

In December 2019, the subsidiary Groupe Marais received an assessment from the French tax authority concerning the calculation of the R&D tax credit for the year 2015. The subsidiary believes that it has correctly applied the tax regulations in question and has appealed against this assessment, with the help of its tax advisors, according to which it is likely to be upheld. For this reason, the Directors did not deem it necessary to recognise any provisions in the financial statements.

44. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, in 2019 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

45. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2019 and 2018, they are summarised as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Sureties	35,560	42,392
Total commitments and risks	**35,560**	**42,392**

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.

46. 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 2019 and 2018 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A. for the 2019 financial period and by EY S.p.A. for the 2018 financial period, respectively.

(Euro in thousands)	Receiver	Independent Auditors that supplied the service	2019	Independent Auditors that supplied the service	2018
Audit of the financial statements and consolidated financial statements	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	102	EY S.p.A.	161
	Subsidiaries and Joint Ventures	Deloitte network	129	EY S.p.A.	212
Limited half-year auditing	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	28	EY S.p.A.	28
Limited auditing of Non-Financial Information	Tesmec S.p.A. Parent Company	Deloitte & Touche S.p.A.	15	EY S.p.A.	23
Auditing services on a voluntary basis(1)	Tesmec S.p.A. Parent Company	Deloitte network	-	EY S.p.A.	129
Other services (2)	Tesmec S.p.A. Parent Company	Deloitte network	-	EY S.p.A.	49
Total			**274**		**602**

(1) The auditing services on a voluntary basis have been provided to the Parent Company in relation to the review of the research and development tax credit assessment table and to the French subsidiary for auditing the French consolidated financial statements prepared on a voluntary basis. For 2019, although already partly contractually agreed, the related services have not yet been rendered at the date of this report.

(2) The item refers to activities aimed at signing Tax Declarations and supporting the identification of areas of intervention for regulatory adjustments. For 2019, although already partly contractually agreed, the related services have not yet been rendered at the date of this report.

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

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

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

- on 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 with immediate effect, 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 58/1998.

Moreover, note that, 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 is monitoring and managing this phenomenon with great attention by applying all the appropriate health and safety protocols in full compliance with the provisions of the Ministry of Health. These circumstances, which are extraordinary in nature and extent, have direct and indirect repercussions on economic activities and created a general uncertainty, the development and effects of which are not currently foreseeable; therefore, the potential effects of this phenomenon on the financial statements will be constantly monitored throughout the year. Based on what is known to date, the Group believes that the impact of this situation does not have material consequences on ordinary activities in the medium term, while short-term liquidity requirements could arise as a result of the slowdown in production and commercial activities, against which the support of the controlling shareholder is confirmed, also through the signing of a loan agreement up to Euro 7 million, to be disbursed as needed and usable for the next three years.

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 2019 financial period.

2. We also certify that:

2.1 the consolidated financial statements as at 31 December 2019:

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

2.2 the directors' report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer and of its consolidated companies, together with a description of the main risks and uncertainties they incur.

Milan, 13 March 2020

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, 2019, 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, 2019, 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.

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, in the context of the use of estimates applicable for the circumstances. The notes 3.3 *"Significant accounting policies – Revenues from contract with customers"* and 3.5 *"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 Group's processes and procedures related to revenue recognition in accordance with applicable financial reporting standards; - assessed the process and identified the key controls implemented by the Group for revenue recognition; - gained an understanding of the substance of the sale transactions and performed sample-based substantive procedures to test revenue 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 international accounting standards.

Compliance with financial covenants provided in financial loan contracts

Description of the key audit matter	The Group's net financial indebtedness amounts to Euro 118.0 million, which includes current net financial indebtedness of Euro 53.9 million. Certain medium/long-term loan contracts provide the respect of some financial covenants that as at the balance sheet date, for one of such covenants provided by two contracts, have not been met; accordingly, the Group reclassified to current liabilities the medium/long-term portion of the related financial debts, amounting to Euro 0.5 million. After the balance sheet date, regarding one of the above mentioned loans, the Group requested to the lender the waiver for the application of the covenant provisions. The process of obtaining such waiver is still ongoing. Regarding the other loan contract, the entire reimbursement of the debt is in any case provided in the short term according to the original terms. The compliance with such 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 19 "Medium/long-term loans" of the financial statements provides disclosure on the Group's financial covenant provisions and 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 the relevant communications between the Management of the Group and the lender about the waiver request; - 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 presentation and classification of financial liabilities in the financial statements; - verified the disclosures provided in the consolidated financial statements.
Transactions with a related party	
Description of the key audit matter	During the current year the Group entered significant transactions with a related party under a multi-year agreement signed during fiscal year 2017, and concerning: i. the sale to the related party of certain machines produced by the Group; ii. the supply of the related party of logistic and maintenance services; iii. the option given to the Group to use such machines sold under short-term lease agreements. The considerations provided under such agreement are determined based on the Group's list prices and other terms and conditions applied also to third parties. Under this agreement, the Group in 2019 (i) recognized Euro 9.7 million of revenues from machines sold; (ii) recognized Euro 1.4 million of revenues from related services and (iii) incurred Euro 3.2 million of rental costs. Considering the relevance of the transactions with such related party, we deemed that this area represents a key audit matter. The paragraph 10 "*Related parties transactions*" of the Directors' report on operations and the note 41 "*Related parties transactions*" of the consolidated financial statements provide disclosure on the transactions with the related party and the compliance with the agreement signed in 2017.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - assessed the application of the Group and Company's internal policy applicable for transactions with related parties, included obtaining and reviewing the minutes of the Committee in charge of verifying transactions with related parties occurred during 2019 and after year-end;

- performed testing of transactions occurred during the year in accordance with the multi-year agreement signed with the related party;

- verified the disclosures provided in the consolidated financial statements in accordance with international accounting standards.

Other matter

The consolidated financial statements of the Group for the year ended December 31, 2018, have been audited by another auditor that on March 15, 2019 issued an unmodified opinion on the consolidated financial statements.

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.

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 Group 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 16, 2019 as auditors of the Group 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 Group 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, 2019, including its consistency with the related consolidated financial statements and its 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, 2019 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 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, 2019 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 30, 2020

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 2019	2018
NON-CURRENT ASSETS			
Intangible assets	4	5,731,729	6,040,891
Property, plant and equipment	5	7,403,187	8,291,463
Rights of use	6	14,228,522	-
Equity investments in subsidiaries	7	56,418,174	54,317,079
Equity investments in associates	7	1,737,511	1,737,511
Other equity investments		2,808	2,808
Financial receivables and other non-current financial assets	8	4,975,196	4,935,426
of which with related parties:		*3,500,000*	*4,500,000*
Derivative financial instruments	18	4,034	51
Deferred tax assets	25	2,329,128	2,362,557
TOTAL NON-CURRENT ASSETS		**92,830,289**	**77,687,786**
CURRENT ASSETS			
Inventories	9	34,620,400	34,528,364
Trade receivables	10	36,831,935	28,868,628
of which with related parties:		*13,544,352*	*9,633,764*
Tax receivables		-	-
Other available-for-sale securities		1,633	1,584
Financial receivables and other current financial assets	11	45,375,077	36,967,374
of which with related parties:		*40,680,645*	*34,611,691*
Other current assets	12	2,869,462	4,154,477
of which with related parties:		*185,692*	*907,321*
Cash and cash equivalents	13	4,649,066	10,559,249
TOTAL CURRENT ASSETS		**124,347,573**	**115,079,676**
TOTAL ASSETS		**217,177,862**	**192,767,462**
SHAREHOLDERS' EQUITY			
Share capital	14	10,708,400	10,708,400
Reserves	14	40,904,307	36,679,870
Net profit for the period	14	4,232,377	4,330,954
TOTAL SHAREHOLDERS' EQUITY		**55,845,084**	**51,719,224**
NON-CURRENT LIABILITIES			
Medium/long-term loans	15	13,550,172	20,510,913
Bond issue	16	24,764,715	24,651,431
Non-current financial liabilities from rights of use	17	12,054,573	-
Derivative financial instruments	18	6,007	34,877
Employee benefit liability	19	1,950,723	1,943,584
Deferred tax liabilities	25	1,654,628	1,603,152
TOTAL NON-CURRENT LIABILITIES		**53,980,818**	**48,743,957**
CURRENT LIABILITIES			
Interest-bearing financial payables (current portion)	20	61,149,216	57,350,698
of which with related parties:		*5,780,891*	*2,339,124*
Current financial liabilities from rights of use	17	*2,294,926*	-
Derivative financial instruments	18	6,228	-
Trade payables	21	33,721,382	25,584,467
of which with related parties:		*2,652,019*	*1,382,821*
Advances from customers		838,966	1,300,022
Income taxes payable	22	1,486,820	768,691
Provisions for risks and charges	23	520,000	310,000
Other current liabilities	24	7,334,422	6,990,403
of which with related parties:		*358,820*	*1,040,083*
TOTAL CURRENT LIABILITIES		**107,351,960**	**92,304,281**
TOTAL LIABILITIES		**161,332,778**	**141,048,238**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**217,177,862**	**192,767,462**

Income statement

(in Euro)	Notes	Financial period ended 31 December 2019	2018
Revenues from sales and services	26	**100,296,781**	**93,078,838**
of which with related parties:		*39,400,087*	*25,725,158*
Cost of raw materials and consumables	27	(53,573,589)	(49,471,096)
of which with related parties:		*(2,969,166)*	*(1,679,369)*
Costs for services	28	(15,942,075)	(14,402,217)
of which with related parties:		*(300,805)*	*(210,934)*
Payroll costs	29	(20,383,520)	(19,076,954)
Other operating (costs)/revenues, net	30	(77,585)	(1,602,448)
of which with related parties:		*265,894*	*(2,307,151)*
Amortisation and depreciation	31	(6,201,020)	(4,298,004)
Development costs capitalised	32	1,946,311	2,578,376
Total operating costs		**(94,231,478)**	**(86,272,343)**
Operating income		**6,065,303**	**6,806,495**
Financial expenses	33	(5,078,584)	(4,432,699)
of which with related parties:		*(465,745)*	*(98,034)*
Financial income	34	4,522,546	3,263,597
of which with related parties:		*2,742,229*	*1,601,142*
Pre-tax profit		**5,509,265**	**5,637,393**
Income tax	25	(1,276,888)	(1,306,439)
Net profit for the period		**4,232,377**	**4,330,954**

Comprehensive income statement

		Financial period ended 31 December	
(in Euro)	**Notes**	**2019**	**2018**
NET PROFIT FOR THE PERIOD		**4,232,377**	**4,330,954**
Other components of comprehensive income:			
Other components of comprehensive income that will not be subsequently reclassified to net income/(loss) for the year:			
First-time adoption of IFRS 9		-	(515,000)
Income tax		-	123,600
	14	-	(391,400)
Actuarial profit/(loss) on defined benefit plans	19	140,155	(71,639)
Income tax		(33,638)	17,193
		106,517	(54,446)
Total other income/(losses) after tax		**106,517**	**(54,446)**
Total comprehensive income (loss) after tax		**4,338,894**	**4,276,508**

Cash flow statement

(in Euro)	Notes	Financial period ended 31 December 2019	2018
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		4,232,377	4,330,954
Adjustments to reconcile net income for the period with the cash flows generated by (used in) operating activities:			
Amortisation and depreciation	31	6,201,020	4,298,004
Provisions for employee benefit liability	19	28,870	27,790
Provisions for risks and charges / inventory obsolescence / doubtful accounts	9-10-23	610,000	160,000
Employee benefit payments	19	(161,887)	(150,303)
Payments/use of provisions for risks and charges			-
Net change in deferred tax assets and liabilities	25	118,543	114,939
Change in fair value of financial instruments	18	(26,625)	(109,527)
Change in current assets and liabilities:			
Trade receivables	10	(8,624,363)	(3,562,533)
of which with related parties:		*(3,910,588)*	*924,580*
Inventories	9	(292,036)	926,578
Trade payables	21	7,676,270	386,597
of which with related parties:		*1,269,198*	*(1,761,442)*
Other current assets and liabilities		2,347,162	1,019,272
of which with related parties:		*40,366*	*181,678*
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**12,109,331**	**7,441,771**
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment	5	(1,280,535)	(2,015,505)
Investments in intangible assets	4	(2,730,506)	(2,832,377)
Investments in rights of use	6	(956,904)	-
(Investments) / disposals of financial assets		(10,548,617)	(9,673,518)
of which with related parties:		*(7,068,954)*	*12,789,307*
Proceeds from sale of property, plant and equipment and intangible	4-5-6	298,184	1,723,313
NET CASH FLOW USED IN INVESTING ACTIVITIES (B)		**(15,218,378)**	**(12,798,087)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Disbursement of medium/long-term loans	15	8,010,440	16,432,227
Recognition of financial liabilities from rights of use		956,904	-
Repayment of medium/long-term loans	15	(10,884,793)	(12,873,931)
Repayment of financial liabilities from rights of use		(2,620,532)	-
Net change in short-term financial debt	20	1,736,845	542,476
of which with related parties:		*3,441,767*	*262,614*
Dividend distribution		-	-
Purchase of treasury shares		-	-
NET CASH FLOW GENERATED BY/ (USED IN) FINANCING ACTIVITIES (C)		**(2,801,136)**	**4,100,772**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**(5,910,183)**	**(1,255,544)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	13	10,559,249	11,814,793
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,649,066**	**10,559,249**
Additional information:			
Interest paid		3,901,746	3,109,656
Income tax paid		-	147,635

Statement of changes in shareholders' equity

(in Euro)	Share capital	Legal reserve	Share premium reserve	Reserve of treasury shares	Other reserves	Profit for the period	Total shareholders' equity
Balance as at 1 January 2018	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**24,307,109**	**1,993,903**	**47,725,224**
Net profit for the period	-	-	-	-	-	4,330,954	4,330,954
Allocation of profit for the period	-	-	-		1,993,903	(1,993,903)	-
First-time adoption of IFRS 9	-	-	-	-	(391,400)	-	(391,400)
Other changes	-	-	-	-	54,446	-	54,446
Balance as at 31 December 2018	**10,708,400**	**2,141,680**	**10,915,101**	**(2,340,969)**	**25,964,058**	**4,330,954**	**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**	**4,232,377**	**55,845,084**

Explanatory notes

Accounting policies adopted in preparing the financial statements as at 31 December 2019

1. Company information

The Parent Company Tesmec S.p.A. (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 2019 was authorised by means of the resolution of the Board of Directors on 13 March 2020.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2019 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 effect as at 31 December 2019. 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 2018, 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 the Group to meet their obligations in the foreseeable future, also taking account of the information provided in note 41 below Significant events occurred after the close of the financial period. Risks and uncertainties relating to the business are described in the relevant sections of the Report on Operations.
A description of how the Company manages financial risks is provided in the section Management of financial risks of these Explanatory notes.

2.1 Adopted financial statement reporting formats

In compliance with the provisions of CONSOB Resolution no. 15519 of 27 July 2006, information on the adopted financial statement reporting format compared to what is stated in IAS 1 are indicated below for the statement of financial position, income statement, comprehensive income statement, statement of changes in shareholders' equity as well as the method used for representing the financial flows in the 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 homogenous categories, the income and expenses that, under IFRS, are recognised directly in shareholders' equity.
- In the statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1.
- The statement of changes in shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the shareholders' equity of the Company.
- The 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 principles

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, 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.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance with IAS 27.
The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.
When there is an indication that the equity investment may have suffered an impairment, its recoverable 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 are measured at the purchase and/or production cost, whichever lower, calculated by using the weighted average cost method, and the net realisable value. The purchase cost is inclusive of additional expenses; the cost of production includes directly attributable costs and a share of indirect costs, reasonably attributable to the products. The net estimated realisable value consists of the estimated sales prices less the estimated completion costs and the costs estimated to make the sale.
Write-down allowances are allocated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their future expected usefulness or their realisable value.

Construction contracts

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

Trade receivables and other current assets

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.
Other current assets are initially recorded at fair value, which generally corresponds to the nominal value and subsequently measured at amortised cost and reduced in case of impairment losses. 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

With reference to the accounting standards in force from 1 January 2019, compared to those applicable for the 2018 financial year, the only significant effect is related to the adoption of **IFRS 16 "Leases"**. Several other amendments and interpretations are adopted for the first time in 2019 but have no impact on the Company's financial statements.
The Company has not adopted in advance any other principle, interpretation or modification published but not yet in force.

- On 13 January 2016, the IASB issued the new standard **IFRS 16 - Leases**, which will replace standard IAS 17 – Leases, as well as interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard provides a new definition of lease and introduces a criterion based on the notion of control (right of use) of an asset to distinguish lease contracts from service contracts, identifying the following as discriminating the lease: the identification of the asset, the right to replace it, the right to substantially obtain all of the economic benefits resulting from the use of the asset and, lastly, the right to direct the use of the asset underlying the contract. The standard establishes a single model of recognition and

measurement of the lease contracts for the lessee that requires the recognition of the asset to be leased (operating lease or otherwise) in assets offset by a financial debt. By contrast, the standard does not include significant changes for the lessors.
The Company used the practical expedient provided for the transition to IFRS 16 in order not to recalculate when a contract is or contains a lease. Therefore, the conclusion regarding the qualification of a contract as a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to contracts entered into or amended before 1 January 2019.
The change in the definition of lease mainly refers to the criterion based on control ("right of use"). According to IFRS 16, a contract contains a lease if the customer has the right to control the use of an identified asset for a period of time in exchange for a payment. This concept is substantially different from the concept of "risks and rewards" to which significant attention is paid in IAS 17 and IFRIC 4.
The Company applies the definition of leases and the related provisions of IFRS 16 for all lease contracts entered into or amended on or after 1 January 2019 (regardless of whether you are a lessee or lessor in each lease contract).
In view of the first-time adoption of IFRS 16, the Company carried out a project to assess the potential impacts and implement IFRS 16. The Company has chosen to apply the standard retrospectively but has recognised the cumulative effect of applying the standard in shareholders' equity as at 1 January 2019 (by not changing the comparative figures for 2018), in accordance with paragraphs IFRS 16:C7-C13. In particular, the Company recorded, with regard to the lease contracts previously classified as operating:

a) a financial liability, equal to the present value of the remaining future payments at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date;
b) a right of use equal to the value of the financial liability at the transition date, net of any accruals and deferrals relating to the lease and recognised in the balance sheet at the end of the reporting period of these financial statements.

In order to assist in understanding the impact of first-time adoption of the standard, the table below provides a reconciliation between future commitments relating to lease contracts and the impact of the adoption of IFRS 16 as at 1 January 2019:

(Euro in thousands)		**1 January 2019**
Commitments for leases as at 31 December 2018	**A**	**18,997**
Exceptions to IFRS 16 recognition	B	(624)
Undiscounted financial liability for leases as at 1 January 2019	**C = A+B**	**18,373**
Discounting effect	D	(2,383)
Financial liability for leases as at 1 January 2019	**E = C+D**	**15,990**
Present value of finance lease liabilities as at 31 December 2018	F	(1,451)
Financial liability for additional leases due to the transition to IFRS 16 as at 1 January 2019	**G = E+F**	**14,539**

The following table shows the impacts of the adoption of IFRS 16 at the transition date:

(Euro in thousands)	**Impacts at the transition date (1 January 2009)**
NON-CURRENT ASSETS	
Rights of use	
Buildings - rights of use	14,240
Plant and machinery - rights of use	-
Other assets - rights of use	322

TOTAL NON-CURRENT ASSETS	**14,562**
CURRENT ASSETS	
Other current assets	(23)
TOTAL CURRENT ASSETS	**(23)**
TOTAL ASSETS	**14,539**
SHAREHOLDERS' EQUITY	
Group net profit / (loss)	-
TOTAL SHAREHOLDERS' EQUITY	**-**
NON-CURRENT LIABILITIES	
Non-current financial liabilities from rights of use	12,798
TOTAL NON-CURRENT LIABILITIES	**12,798**
CURRENT LIABILITIES	
Current financial liabilities from rights of use	1,741
TOTAL CURRENT LIABILITIES	**1,741**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**14,539**

The value of non-current assets relating to operating lease contracts was increased by the balance of prepaid expenses for an amount of Euro 23 thousand. The weighted average incremental borrowing rate applied to financial liabilities recognised as at 1 January 2019 was 4%.

In adopting IFRS 16, the Company made use of the exemption granted by paragraph IFRS 16:5(a) in relation to short-term leases for the following asset classes: computers, phones and tablets, printers and cars. Similarly, the Company made use of the exemption granted by IFRS 16:5(b) concerning lease contracts for which the underlying asset is a low-value asset (i.e. the asset underlying the lease contract does not exceed Euro 5 thousand, when new). The contracts for which the exemption was applied fell mainly within the following categories:

- Computers, phones and tablets;
- Printers;
- Other electronic devices;
- Furniture and fixtures.

For these contracts, the introduction of IFRS 16 did not result in the recognition of the financial liability of the lease and the related right of use, but the lease payments were recorded in the income statement on a straight-line basis for the duration of the respective contracts in the item "other costs" of the consolidated income statement.

Moreover, with reference to the transition rules, the Company made use of the following practical expedients available in the event of the choice of the modified retrospective transition approach:

- use of a single discount rate for lease portfolios with reasonably similar characteristics;
- use of the assessment carried out as at 31 December 2018 in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets in relation to the accounting of onerous contracts as an alternative to the application of the impairment test in accordance with IAS 36 on the value of the right of use as at 1 January 2019;
- classification of contracts that expire within 12 months of the transition date as short term leases. For these contracts, lease payments were recognised in the income statement on a straight-line basis;
- exclusion of initial direct costs from the measurement of the right of use as at 1 January 2019;
- use of the information present at the transition date to determine the lease term, with a special reference to the exercise of extension and early closure options.

For lease contracts previously classified as finance leases in accordance with IAS 17, the book value of the assets subject to the lease and the obligations arising from lease contracts recognised in accordance with IAS 17 as at 31 December 2018 are reclassified respectively under rights of use and lease liabilities without any adjustment, with the exception of the exemption for the recognition of low-value leases.

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

  The adoption of this amendment did not have any effect on the Company's financial statements.

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

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

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

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

New and amended standards and interpretations not yet applicable

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

- On 31 October 2018, IASB issued the document **"Definition of Material (Amendments to IAS 1 and IAS 8)"**. The document introduced a change in the definition of "material" contained in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims at making the definition of "material" more specific and introduced the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way that it has an effect on primary readers of financial statements similar to that which would have resulted had the information been omitted or misstated. The amendments introduced were approved on 29 November 2019 and apply to all transactions after 1 January 2020. The directors do not expect a significant effect on the Company's financial statements through the adoption of this amendment.

- 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.

- 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 in addition to 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 (still in progress) 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 amendments are effective beginning on 1 January 2020, but companies may opt for earlier application. The directors do not expect effects on the Company's financial statements through the adoption of this amendment.

Accounting standards and interpretations issued 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 22 October 2018, the IASB issued the document "***Definition of a Business (Amendments to IFRS 3)***"**.** The document provides some clarifications regarding the definition of business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an acquired set of activities/processes and assets. However, it clarifies that to be considered a business, an acquired set of activities/processes and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create 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. Considering that this amendment will be applied to new acquisitions that will be concluded as from 1 January 2020, any effects will be recognised in the financial statements ended after that date.

- On 18 May 2017, the IASB issued the standard **IFRS 17 – Insurance Contracts** that will replace standard IFRS 4 – Insurance Contracts. The aim of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from issued insurance contracts. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies by providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also includes presentation and disclosure requirements to improve comparability between entities in this sector. The directors do not expect a significant effect on the Company's financial statements through the adoption of this standard.

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

2.4 Discretionary assessment and significant accounting estimates

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

Reverse factor

With regard to reverse factoring, 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. 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 Company, 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 Company 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 accounting standards, the directors made decisions based on certain discretionary evaluations (excluding those involving estimates).

Lease term of contracts containing an extension option (Company as lessee)

The Company 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 Company has the option, for some of its leases, to extend the lease or terminate it early. The Company 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 Company 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 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 7 thousand.

As at 31 December 2018, there were seven positions related to derivative instruments of interest rate swap hedging the risk related to the potential increase in interest bearing financial payables (current portion) due to fluctuating market rates. The notional value of these positions was equal to Euro 11.59 million, with a negative equivalent value of Euro 35 thousand.

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

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

- potential change in financial expenses and differentials related to existing derivative instruments in the 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 Company estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2019 financial period (compared to 2018) produced by a simulation of the change in the term structure of the interest rates, by using internal measurement models, based on the general acceptance approach. In particular:

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

With reference to the situation as at 31 December 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.

With reference to the situation as at 31 December 2018, a parallel shift of the term structure of interest rates equal to +100 basis points (+1%) would result in an increase in financial expenses accrued in the 2019 financial period of Euro 98 thousand, offset by an increase of Euro 48 thousand in the spread collected for the existing derivatives. A parallel shift of the term structure of interest rates of -30 basis points (-0.3%) would result in a decrease in financial expenses of Euro 6 thousand, more than offset by a decrease of Euro -9 thousand in the collected spread for the existing derivatives.

(Euro in thousands)	Interests					
	31 December 2019			31 December 2018		
	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	114,812	(63)	19	102,185	(98)	6
Total Loans	**114,812**	**(63)**	**19**	**102,185**	**(98)**	**6**
(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	7,649	1	(1)	11,593	48	(9)
Total Derivative instruments	**7,649**	**1**	**(1)**	**11,593**	**48**	**(9)**
Total		**(62)**	**18**		**(50)**	**(3)**

* The residual debt is considered before amortised costs.

(Euro in thousands)	Fair value sensitivity of derivatives									
	Financial period ended 31 December 2019									
	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	7,694	(7)	9	14	14	-	(9)	(14)	(9)	-
Total	**7,694**	**(7)**	**9**	**14**	**14**	**-**	**(9)**	**(14)**	**(9)**	**-**
	Financial period ended 31 December 2018									
(Euro in thousands)	Notional value	Net FV	Net FV + 100 bps	Net FV + 100 bps	Impact on IS +100 bps	Impact on SE +100 bps	Net FV - 30 bps	Net FV -30 bps	Impact on IS - 30 bps	Impact on SE - 30 bps
Derivative instruments hedging cash flows	11,593	(35)	44	78	78	-	(50)	(16)	(16)	-
Total	**11,593**	**(35)**	**44**	**78**	**78**	**-**	**(50)**	**(16)**	**(16)**	**-**

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.

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

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 2019 and to 2018 financial periods, with regard to financial instruments, by residual maturity, is set out below.

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	64,007	946	1,250	1,376	33,721	6	**101,306**
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	-	-	**11,835**
Between five and seven years	6,841	271	-	-	-	(4)	**7,108**
After more than 7 years	2,044	4	-	-	-	-	**2,048**
Total	**89,812**	**3,243**	**25,000**	**3,107**	**33,721**	**8**	**154,891**

* The residual debt is considered before amortised costs.

Maturity	31 December 2018						
	Financial payables		Bonds		Trade payables	Financial instruments	Total
	Capital(*)	Interests	Capital(*)	Interests			
(Euro in thousands)	a	b	c	d	e	f	g=a+b+c+d+e+f
Within 12 months	56,466	761	-	1,388	25,958	28	**84,601**
Between one and two years	10,780	590	1,250	1,391	-	8	**14,019**
Between two and three years	4,259	356	17,500	1,298	-	-	**23,413**
Between three and five years	2,663	377	5,000	415	-	-	**8,455**
Between five and seven years	143	292	1,250	30	-	-	**1,715**
After more than 7 years	2,875	72	-	-	-	-	**2,947**
Total	**77,186**	**2,448**	**25,000**	**4,522**	**25,958**	**36**	**135,150**

* 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 2019 and 31 December 2018).

Management of the exchange-rate risk

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

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

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

	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	-	-	-	-	-

	2018 Exposure in foreign currency (USD)			2018 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	3,302	-	3,302	(144)	144
Financial receivables	16,855	-	16,855	(736)	736
Trade payables	-	(48)	(48)	2	(2)
Total gross exposure with regard to equity items	**20,157**	**(48)**	**20,109**	**(878)**	**878**
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	-	-	-	-	-

Exposure with regard to equity items	2018 Exposure in foreign currency (ZAR)			2018 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	36,091	-	36,091	(110)	110
Financial receivables	-	-	-	-	-
Total gross exposure with regard to equity items	**36,091**	**-**	**36,091**	**(110)**	**110**
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	2018 Exposure in foreign currency (AUD)			2018 Sensitivity	
	Assets (AUD/000)	Liabilities (AUD/000)	Net (AUD/000)	Income statement EUR/AUD exchange rate +5% (EUR/000)	Income statement EUR/AUD exchange rate -5% (EUR/000)
Trade receivables	4,334	-	4,334	(134)	134
Financial receivables	600	(14)	586	(18)	18
Trade payables	-	-	-	-	-
Total gross exposure with regard to equity items	**4,934**	**(14)**	**4,920**	**(152)**	**152**
Derivative instruments	-	-	-	-	-

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

Exposure with regard to equity items	2019 Exposure in foreign currency (RUB)			2019 Sensitivity	
	Assets (RUB/000)	Liabilities (RUB/000)	Net (RUB/000)	Income statement EUR/RUB exchange rate +5% (EUR/000)	Income statement EUR/RUB exchange rate -5% (EUR/000)
Trade receivables	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	-	-	-	-	-

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

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

Disclosures: categories of financial assets and liabilities 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.

(Euro in thousands)	Current/Non-current assets 31/12/2019	31/12/2018
NON-CURRENT ASSETS:		
Receivables and other financial assets	4,975	4,935
Derivative financial instruments	4	-
CURRENT ASSETS:		
Trade receivables	36,832	28,869
Other available-for-sale securities	2	2
Financial receivables	45,375	36,967
Cash and cash equivalents	4,649	10,559

(Euro in thousands)	Current/non-current liabilities 31/12/2019	31/12/2018
NON-CURRENT LIABILITIES:		
Financial payables	13,550	20,511
Bond issue	24,765	2,465
Non-current financial liabilities and rights of use*	12,055	-
Derivative financial instruments	6	35
CURRENT LIABILITIES:		
Interest-bearing financial payables (current portion)	61,149	57,351
Current financial liabilities and rights of use*	2,295	-
Derivative financial instruments	6	-
Trade payables	33,721	25,584
Advances from customers	839	1,300

(*) Following the adoption of IFRS 16 as from 1 January 2019, this item includes:

- the effect of the recognition of a right of use, as envisaged by the above-mentioned standard, for contracts previously accounted for as operating leases in line with the previous IAS 17;
- the financial liability associated with contracts previously accounted for as finance leases in line with the previous IAS 17, previously classified under "Non-current financial payables" and "Interest-bearing financial payables (current portion)".

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	1,475	-	-	-	-
Financial receivables from related parties	3,500	-	-	-	-
Derivative financial instruments	-	-	-	-	4
Total non-current	**4,975**	**-**	**-**	**-**	**4**
Trade receivables	36,832	-	-	-	-
Financial receivables from third parties	4,694	-	-	-	-
Financial receivables from related parties	40,681	-	-	-	-
Other available-for-sale securities	-	-	-	2	-
Cash and cash equivalents	-	-	4,649	-	-

Total current	**82,207**	**-**	**4,649**	**2**	**-**
Total	**87,182**	**-**	**4,649**	**2**	**4**
Financial liabilities:					
Medium/long-term loans	13,550	-	-	-	-
Bond issue	24,765	-	-	-	-
Non-current financial liabilities from rights of use	12,055	-	-	-	-
Derivative financial instruments	-	-	-	-	6
Total non-current	**50,370**	**-**	**-**	**-**	**6**
Interest-bearing financial payables (current portion)	55,368	-	-	-	-
Financial payables to related parties	5,781	-	-	-	-
Current financial liabilities from rights of use	2,295	-	-	-	-
Derivative financial instruments	-	-	-	-	6
Trade payables	33,721	-	-	-	-
Advances from customers	839	-	-	-	-
Total current	**98,004**	**-**	**-**	**-**	**6**
Total	**148,375**	**-**	**-**	**-**	**12**

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 2019**	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Derivative financial instruments	4	-	4	-
Total non-current	**4**	**-**	**4**	**-**
Other available-for-sale securities	2	-	-	2
Total current	**2**	**-**	**-**	**2**
Total	**6**	**-**	**4**	**2**
Financial liabilities:				

Derivative financial instruments	6	-	6	-
Total non-current	**6**	**-**	**6**	**-**
Derivative financial instruments	6	-	6	-
Total current	**6**	**-**	**6**	**-**
Total	**12**	**-**	**12**	**-**

COMMENTS ON THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

Non-current assets

4. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2019 and as at 31 December 2018 is indicated in the table below:

	31 December					
	2019			2018		
(Euro in thousands)	**Historical cost**	**Accum. amort.**	**Net value**	**Historical cost**	**Accum. amort.**	**Net value**
Development costs	24,581	(19,419)	5,162	22,432	(16,596)	5,836
Rights and trademarks	3,046	(2,861)	185	2,903	(2,698)	205
Assets in progress and advance payments to suppliers	385	-	385	-	-	-
Total intangible assets	**28,012**	**(22,280)**	**5,732**	**25,335**	**(19,294)**	**6,041**

The following table shows the changes in intangible assets for the period ended 31 December 2019:

(Euro in thousands)	**01/01/2019**	**Increases**	**Decreases**	**Reclassifications**	**Amortisation**	**31/12/2019**
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**

As at 31 December 2019, intangible assets net of amortisation totalled Euro 5,732 thousand, down Euro 309 thousand on the previous year.
Increases for the period totalled Euro 2,731 thousand and consist in development costs capitalised related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods, based on the requirements described in more detail in the section on the main accounting standards applied.

At the end of the reporting period, the Company analysed the value of its intangible assets and, as no 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 2018:

	31 December					
	2018			2017		
(Euro in thousands)	**Historical cost**	**Accum. amort.**	**Net value**	**Historical cost**	**Accum. amort.**	**Net value**
Development costs	22,432	(16,596)	5,836	32,725	(26,631)	6,094
Rights and trademarks	2,903	(2,698)	205	2,815	(2,533)	282
Assets in progress and advance payments to suppliers	-	-	-	-	-	-
Total intangible assets	**25,335**	**(19,294)**	**6,041**	**35,540**	**(29,164)**	**6,376**

5. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2019 and as at 31 December 2018 is indicated in the table below:

	31 December					
	2019			2018		
(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	3,361	(599)	2,762	3,358	(497)	2,861
Plant and machinery	10,685	(9,524)	1,161	10,995	(9,090)	1,905
Equipment	3,926	(3,617)	309	3,872	(3,454)	418
Other assets	3,299	(1,900)	1,399	3,238	(1,903)	1,335
Assets in progress and advance payments to suppliers	522	-	522	522	-	522
Total property, plant and equipment	**23,043**	**(15,640)**	**7,403**	**23,235**	**(14,944)**	**8,291**

The following table shows the changes in property, plant and equipment for the period ended 31 December 2019:

(Euro in thousands)	01/01/2019	Increases	Decreases	Reclassifications	Depreciation	31/12/2019
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**

As at 31 December 2019, property, plant and equipment totalled Euro 7,403 thousand, a decrease of Euro 1,027 thousand compared to the previous year, mainly due to the effect of depreciation for the period of Euro 1,007 thousand.

The item Assets in progress and advance payments to suppliers, amounting to Euro 522 thousand, refers to a production machine built internally, which is currently being completed and is expected to be depreciated in the first months of 2020.

Following the entry into force, as from 1 January 2019, of the new IFRS 16 Leases standard, the Company reclassified to the item *Rights of use* property, plant and equipment held under finance leases (consisting mainly of trencher machinery), for Euro 908 thousand, previously accounted for in accordance with the previous IAS 17. The reclassification is a consequence of the Company's decision to adopt the simplified retrospective approach as the first-time adoption of the new IFRS 16 standard and not to change the comparative data.

At the end of the reporting period, the Company analysed the value of its property, plant and equipment and, as no indicators of impairment 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 2018:

(Euro in thousands)	01/01/2018	Increases	Decreases	Reclassifications	Depreciation	31/12/2018
Land	1,250	-	-	-	-	1,250
Buildings	2,858	102	-	-	(99)	2,861
Plant and machinery	2,444	193	(2)	-	(730)	1,905

Equipment	374	411	(180)	-	(187)	418
Other assets	1,682	1,310	(1,542)	-	(115)	1,335
Assets in progress and advance payments to suppliers	522	-	-	-	-	522
Total property, plant and equipment	**9,130**	**2,016**	**(1,724)**	**-**	**(1,131)**	**8,291**

6. Rights of use

The breakdown in *Rights of use* as at 31 December 2019:

	31 December					
	2019			**2018**		
(Euro in thousands)	**Historical cost**	**Accum. depr.**	**Net value**	**Historical cost**	**Accum. depr.**	**Net value**
Industrial Buildings - Right of use	14,240	(1,941)	12,299	-	-	-
Plant and machinery - Rights of use	317	(53)	264	-	-	-
Equipment - Rights of use	28	(4)	24	-	-	-
Other assets - Rights of use	2,052	(410)	1,642	-	-	-
Total rights of use	**16,637**	**(2,408)**	**14,229**	**-**	**-**	**-**

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**	**Depreciation**	**31/12/2019**
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**

The item rights of use refers to the accounting required by IFRS 16 for operating leases as from 1 January 2019, as described in paragraph "4. New accounting standards, interpretations and amendments adopted by the Group".
The adoption of IFRS 16 introduced some elements of professional judgement that involve the definition of accounting policies and the use of assumptions and estimates, for example, in relation to the determination of the lease term.
As described above, in the current financial period, leased assets already recorded under Property, plant and equipment in previous financial years, amounting to Euro 908 thousand, were reclassified in Rights of use.
The increases for the period mainly refer to lease contracts signed during the period mainly for trencher machines.

At the end of the reporting period, the Company analysed the value of its right-of-use assets and, as no indicators of impairment were found, it did not deem it necessary to test them for impairment .

7. Equity investments in subsidiaries, associates and joint ventures.

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2019 and 2018 is indicated in the table below:

	31 December	
(Euro in thousands)	**2019**	**2018**
Subsidiaries:		
Tesmec USA, Inc.	21,261	21,261
Tesmec Service S.r.l.	-	3,596

Tesmec SA	6,296	6,296
East Trenchers S.r.l.	145	145
Tesmec Automation S.r.l.	4,026	3,026
OOO Tesmec RUS	11	11
Tesmec New Technology (Beijing) LTD	200	200
Marais Technologies SA	10,814	10,814
Tesmec Australia Ltd. (former Marais Laying Tech. Ltd. AUS)	3,766	1,923
Bertel S.r.l.	4,293	4,035
Tesmec Rail S.r.l.	5,606	3,010
Total equity investments in subsidiaries	**56,418**	**54,317**

Equity investments in subsidiaries increased overall of Euro 2,101 thousand as a result of the following operations:

- Tesmec Service S.r.l.: the decrease of Euro 3,596 thousand refers to the reclassification of the equity investment in Tesmec Rail S.r.l. following the merger of Tesmec Service S.r.l. into Tesmec Rail S.r.l. on 1 May 2019;
- Tesmec Automation S.r.l.: the increase of Euro 1,000 thousand is related to the conversion of the financial receivable in capital reserve;
- Tesmec Australia (Pty) Ltd.: on 22 March 2019, Simest S.p.A. paid its share of Euro 1,843 thousand in Marais Laying Tech. (Pty) Ltd. as per agreements signed in 2018.
  Following this payment, the company Marais Laying Tech. (Pty) Ltd. and its subsidiary Marais Laying Tech. (Pty) Ltd. New Zealand are 51% controlled by Tesmec S.p.A. and the remaining 49% by Simest S.p.A.
  Since Tesmec S.p.A. has an obligation to buy back the portion held by Simest S.p.A., for accounting purposes the share capital increase of Simest is considered to be the responsibility of Tesmec and at the same time a loan due to Simest arises.
  Subsequently, on 14 August 2019, the company Marais Laying Tech. (Pty) Ltd. changed its name to Tesmec Australia (Pty) Ltd.

The following table shows the main financial statement items of subsidiaries:

	31 December						
	2019						
(Euro in thousands)	**% held**	**Revenues**	**Net result**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Book value**
Subsidiaries:							
Tesmec USA, Inc.	100.00%	37,795	1,828	54,643	31,548	23,095	21,261
Tesmec SA	51.00%	5,388	163	8,358	2,674	5,684	6,296
East Trenchers S.r.l.	100.00%	78	15	110	61	49	145
Tesmec Automation S.r.l.	100.00%	12,198	(613)	18,096	17,482	614	4,026
OOO Tesmec RUS	100.00%	2,511	63	2,157	2,650	(493)	11
Tesmec New Technology (Beijing) LTD	100.00%	410	(145)	503	1,386	(883)	200
Marais Technologies SA	66.04%	-	(93)	21,589	6,364	15,225	10,814
Tesmec Australia Ltd. (former Marais Laying Tech. Ltd. AUS)	51.00%	8,646	(1,732)	12,711	15,698	(2,987)	3,766
Bertel S.r.l.	100.00%	-	(206)	1,613	1,319	294	4,293
Tesmec Rail S.r.l.	100.00%	29,912	1,068	56,542	48,928	7,614	5,606

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 13 March 2020.

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, 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 impairment test derive from the plans examined by the Board of Directors held on 20 December 2019, prepared on the basis of an explicit forecast period of 3 years. These plans include the hiring of the Directors consistent with the strategy of the Tesmec Group in the individual businesses and markets in which it operates and also depend on external variables not controllable by the management such as exchange rate and interest rate trends, infrastructure investments in the countries where the group operates, macropolitical 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 therefore do not include the effects, at present difficult to quantify, of the global spread of Covid-19, mentioned in paragraph 15. Business Outlook 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:

	WACC
Subsidiaries:	
Tesmec USA, Inc.	9.4%
Tesmec SA	15.0%
Tesmec Automation S.r.l. (*)	9.4%
OOO Tesmec RUS	14.2%
Tesmec New Technology (Beijing) LTD	9.3%
Marais Technologies SA	7.6%
Tesmec Australia Ltd.	8.8%
Tesmec Rail S.r.l.	8.9%

* For the purposes of the impairment test, a single CGU was considered for the subsidiaries Tesmec Automation and Bertel

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 1.1 million, while the adoption of a zero growth rate g would result in an overall impairment of Euro 0.4 million. 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 2019. 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 2019 and 2018 is indicated in the table below:

	31 December	
(Euro in thousands)	**2019**	**2018**
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						
	2019						
(Euro in thousands)	**% held**	**Revenues**	**Net result**	**Assets**	**Liabilities**	**Shareholders' Equity**	**Book value**
Associates:							
Locavert SA	38.63%	202	24	798	224	574	52
Joint Ventures:							
Condux Tesmec Inc.	50.00%	4,308	142	6,031	2,649	3,382	956
Tesmec Peninsula	49.00%	815	99	3,072	2,775	297	730

As at 31 December 2019, 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 2019, 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 2019 and 2018:

(Euro in thousands)	31 December 2019	2018
Guarantee deposits	2	2
Financial receivables from third-party customers	1,473	433
Financial receivables from related parties	3,500	4,500
Total financial receivables and other non-current financial assets	**4,975**	**4,935**

As at 31 December 2019, financial receivables and other non-current financial assets totalled Euro 4,975 thousand, up Euro 40 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 2019 and 2018:

(Euro in thousands)	31 December 2019	2018
Advances to Suppliers	16	8
Raw materials and consumables	19,432	20,042
Work in progress	6,056	5,917
Finished products and goods for resale	9,116	8,561
Total inventories	**34,620**	**34,528**

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole increased by 0.3% thanks to the increase in revenues.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2019 and 2018 are indicated below:

(Euro in thousands)	Financial period ended 31 December 2019	2018
Value as at 1 January	3,190	3,090
Provisions	200	100
Uses	-	-
Total provisions for inventory obsolescence	**3,390**	**3,190**

The value of the provisions for inventory obsolescence is unchanged compared to the prior financial period. The adequacy of the provision is assessed on a regular basis to constantly monitor the actual level of inventories recovered through sales.

10. Trade receivables

The table below shows the breakdown of trade receivables as at 31 December 2019 and 2018:

(Euro in thousands)	31 December 2019	2018
Trade receivables from third-party customers	23,288	19,235

Trade receivables fromg related parties	13,544	9,634
Total trade receivables	**36,832**	**28,869**

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

Trade receivables as at 31 December 2019 amounted to Euro 36,832 thousand, up by Euro 7,963 thousand compared to the 2018 financial period.
The balance of trade receivables is shown net of provisions for doubtful accounts. This provision was calculated in an analytical manner by dividing the receivables in classes depending on the level of risk, by country and customer, and by applying to each class an expected percentage of loss derived from historical experience. 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 2019 and 2018 are indicated in the table below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Value as at 1 January	961	985
First-time adoption of IFRS 9	-	515
Provisions	200	-
Uses	(198)	(539)
Total provisions for doubtful accounts	**963**	**961**

Uses and provisions related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.
Note that, in 2018, the Company recognised the effects deriving from the first-time adoption of IFRS 9 using the retrospective simplified method.

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 2019 and 31 December 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Financial receivables from related parties	40,681	34,612
Other current financial assets	4,694	2,355
Total financial receivables and other current financial assets	**45,375**	**36,967**

The increase in *financial receivables and current financial assets* (Euro 8,408 thousand) is due for Euro 6,069 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 12,943 thousand with interest rate equivalent to 6-month Euribor rate + spread of 2;
- Tesmec Rail S.r.l. of Euro 2,500 thousand of which Euro 1,000 thousand related to a loan with interest rate equal to Euribor 3 months + spread of 3.5% and the remaining Euro 2,500 thousand related to dividends approved by the Shareholders' Meeting of Tesmec Rail S.r.l. on 27 December 2019;
- Tesmec Automation S.r.l. of Euro 8,171 thousand with interest rate equivalent to 3-month Euribor rate + spread of 3.5%;
- Tesmec Australia Ltd. (former Marais Laying Tech. Ltd. AUS) of Euro 6,936 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;

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

Other current financial assets mainly refer to:

- the escrow account of Euro 1,922 thousand paid in 2019 in accordance with the pronouncement of the Lyon Court of Appeal in the current dispute with a former French distributor. The amount was recognised as other current assets, having obtained opinions of the legal advisors appointed to assist Tesmec, according to whom the Company's position is well-grounded, on the prompt repayment of the amount paid into the escrow account in 2020;
- the sum, including interest, of Euro 1,726 thousand, obtained following 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;
- financial receivables from third-party customers of Euro 1,020 thousand deriving from sales of trencher machines with extended terms of payment and that envisage the payment of interest.

12. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2019 and as at 31 December 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Prepaid expenses	539	426
VAT credit	557	213
Other tax receivables	1,143	2,096
Other receivables	195	166
Receivables from subsidiaries	185	907
Advance to suppliers for services	250	346
Total other current assets	**2,869**	**4,154**

Other current assets is considered receivable and therefore not subject to value adjustment; the item decreased by Euro 1,285 thousand compared to the previous financial period. This decrease is mainly due to the item "other tax receivables" of Euro 953 thousand due to the lower tax credit on research and development costs recorded for the 2019 financial period. As at 31 December 2019, this tax credit amounted to Euro 881 thousand, while in 2018 it amounted to Euro 1,999 thousand.

13. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Bank and post office deposits	4,643	10,555
Cash on hand	4	3
Other cash	2	1
Total cash and cash equivalents	**4,649**	**10,559**

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 2019 amounted to Euro 4,649 thousand and decreased of Euro 5,910 thousand. The stated values can be readily converted into cash and are subject to a non-significant risk of change in value. The book value of cash and cash equivalents is deemed to be aligned to their fair value at the end of the reporting period.
The Company believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

14. Shareholders’ Equity

Share capital and reserves

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2019 and 2018:

	31 December	
(Euro in thousands)	**2019**	**2018**
Revaluation reserve	86	86
Extraordinary reserve	33,266	28,935
Reserve for first-time adoption of IFRS 9	(391)	(391)
Severance indemnity valuation reserve	(398)	(291)
Network reserve	754	754
Retained earnings/(losses brought forward)	2,490	2,490
Bills charged directly to shareholders' equity on operations with entities under common control	(5,619)	(5,619)
Total other reserves	**30,188**	**25,964**

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 16 April 2019, the Shareholders' Meeting approved the allocation of 2018 profits of Euro 4,331 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 application of the new standard. The Company attributed the largest allowance related to doubtful accounts applied to the decrease in equity reserves as at 1 January 2018 without restating the comparative data.

The Shareholders' Equity is therefore divided according to the origin, the possibility of usage, the related distributability and the actual usage in the 3 previous financial periods

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	10,708	B			
Equity reserves:					
Share premium reserve	10,915	A, B, C (*)	10,915	-	-
Reserve of treasury shares	(2,341)				
Earnings reserves:					
Legal reserve	2,142	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	33,266	A, B, C	33,266	-	-
Reserve for First-Time Adoption	(5,619)				
Reserve for first-time adoption of IFRS 9	(391)				
Severance indemnity valuation reserve	(398)				

Network reserve	754				
Retained earnings	2,490	B			
Profit for the period	4,233				
Total	**55,845**		**44,267**	**-**	**-**

(*) 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 is reached as at 31 December 2019.

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 2019 and as at 31 December 2018, with separate disclosure of total loan and current portion:

	31 December			
(Euro in thousands)	**2019**	**of which current portion**	**2018**	**of which current portion**
Simest UGF	141	141	424	283
ICCREA BANCA/BCC	1,173	465	1,639	465
Banco BPM	1,501	273	1,774	273
Credit Agricole Cariparma	442	442	1,318	1,318
Banca Monte dei Paschi di Siena	828	828	1,932	1,104
Banca Intesa San Paolo	-	-	379	379
Banco di Desio e della Brianza	193	193	650	457
Creval	-	-	85	85
BPER Banca	1,282	1,023	2,286	1,004
Banco di Desio e della Brianza	501	501	1,246	745
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	1,498	1,498	2,495	998
Unipol Banca	-	-	563	563
UBI Banca	-	-	338	338
Deutsche Bank	373	373	745	372
Banca Popolare di Sondrio	1,217	764	1,964	747
Banco BPM	1,733	334	2,061	327
Banco BPM	2,491	480	2,962	474
Credito Valtellinese Motore Impresa	601	601	-	-
ICCREA BANCA/BCC	2,591	493	-	-
BCC loan	469	468	-	-
Sparkasse loan	996	321	-	-
Total medium/long-term loans	**18,030**	**9,198**	**22,861**	**9,932**
less current portion	(9,198)		(9,932)	
Non-current portion of medium/long-term loans	**8,832**		**12,929**	

Medium/long-term loan due to Simest	8,718	4,000	6,875	-
less current portion	(4,000)		-	
Medium/long-term loan due to Simest	**4,718**		**6,875**	
Total medium/long-term loans	**13,550**	**13,198**	**19,804**	**9,932**
Non-current portion of finance leases	-	-	1,451	744
Less current portion	-		(744)	
Non-current portion of finance leases, net	**-**		**707**	
Total current portion		**13,198**		**10,676**
Medium/long-term loans	**13,550**		**20,511**	

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 the Tesmec Group, one financial covenant relating to the Net Financial Position/EBITDA ratio towards two credit institutions has not been met. However, this non-compliance resulted in the short-term recognition of the residual medium/long-term portion only of the loan outstanding with Istituto Bancario Mediocredito Centrale of Euro 500 thousand, in that only the current portion remains with the other bank. The company has promptly started with Mediocredito Centrale the procedures to get the waiver for the year 2019 and, currently, the company believes that there are reasons to believe that the waiver will be granted in the time frame strictly necessary. Moreover, also on the basis of the most updated forecasts regarding the performance for the current year, it is believed that as of the date of the next check for compliance with the covenants, there will be no further cases beyond those that occurred on 31 December 2019.

Finally, note that during 2019:

- new medium to long term loans were opened for a value of Euro 8,010 thousand;
- the non-current portion of the payable from finance lease of Euro 707 thousand, originally recognised according to the previous IAS 17, was reclassified under *Non-current financial liabilities from rights of use*.

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

The table below shows the figures relevant to the outstanding loans of the Company as at 31 December 2019, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Residual value as at 31 December 2019	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Simest UGF	04-Feb-20	141	141	-	-
ICCREA BANCA/BCC	27-Mar-22	1,173	465	708	-
Banco BPM	30-Jun-25	1,501	273	1,091	137
Credit Agricole Cariparma	26-Mar-20	442	442	-	-
Banca Monte dei Paschi di Siena	30-Sep-20	828	828	-	-
Banco di Desio e della Brianza	10-May-20	193	193	-	-
BPER Banca	18-Mar-21	1,282	1,023	259	-
Banco di Desio e della Brianza	30-Apr-21	501	501	-	-
Banca del Mezzogiorno - Mediocredito Centrale (MCC)	30-Jun-21	1,498	1,498	-	-
Deutsche Bank	28-Nov-20	373	373	-	-
Banca Popolare di Sondrio	31-Jul-21	1,217	764	453	-

Banco BPM 03838209 loan	31-Dec-24	1,733	334	1,399	-
Banco BPM 06052885 loan	31-Dec-24	2,491	480	2,011	-
Credito Valtellinese Motore Impresa	12-Aug-20	601	601	-	-
ICCREA BANCA/BCC	31-Mar-25	2,591	493	1,975	123
BCC loan	02-Jul-20	469	468	1	-
Sparkasse loan	31-Dec-22	996	321	675	-
Total		**18,030**	**9,198**	**8,572**	**260**

Net financial indebtedness

As required by CONSOB Communication of 28 July 2006 and in compliance with CESR Recommendation of 10 February 2005 "Recommendation 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)	**2019**	***of which with related parties and group***	**2018**	***of which with related parties and group***
Cash and cash equivalents	(4,649)		(10,560)	
Current financial assets	(45,377)	*(40,681)*	(36,967)	*(34,612)*
Current financial liabilities	61,149	*5,781*	57,350	*2,339*
Current financial liabilities from rights of use	2,295		-	
Current portion of derivative financial instruments	6		-	
Current financial indebtedness (*)	**13,424**	*(34,900)*	**9,823**	*(32,273)*
Non-current financial liabilities	38,315		45,162	
Non-current financial liabilities from rights of use	12,055		-	
Non-current portion of derivative financial instruments	6		35	
Non-current financial indebtedness (*)	**50,376**	-	**45,197**	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 (*)	***63,800***	***(34,900)***	***55,020***	***(32,273)***

* The Annual Financial Report includes consolidated economic and financial indicators that are used by the Management to monitor the economic and financial performance of the Tesmec Group. These indicators are not defined or specified in the applicable financial reporting regulations. As the composition of these measures is not regulated by the reference accounting standards, the calculation criterion used by the Tesmec Group may not be in line with the criterion used by other Groups and, consequently, may not be comparable.
The Alternative Performance Measures are constructed exclusively from the Group's historical accounting data and are determined in accordance with the provisions of the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 as per CONSOB Communication no. 92543 of 3 December 2015 and are not audited. Refer to paragraph 6.1 of Report on Operations for the valuation criterion applied by Tesmec on these indicators.

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.

Net indebtedness stood at Euro 63,800 thousand as at 31 December 2019 from Euro 55,020 thousand as at 31 December 2018. The increase of Euro 14,350 thousand represents the effect of the recognition of a right of use and consequently of financial liabilities from right of use, as envisaged by IFRS 16, for contracts previously accounted for as operating leases in accordance with the previous IAS 17.

We also report the following changes:

- for the short-term portion, there was a total increase of Euro 3,601 thousand relating to the reclassification of the short-term portion of Euro 10,885 thousand of medium/long-term loans;
- increase in the long-term portion of Euro 5,179 thousand deriving from the activation of new loans of Euro 8,010 thousand offset by the reclassification in the current financial indebtedness described in the paragraph.

16. Bond issue

The item relating to the *bond issue* amounted to Euro 24,765 thousand and increased by Euro 114 thousand compared to the previous year.
Note that this item includes:

- the "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. This bond issue will expire in the first half of 2021 and the Group has already begun refinancing initiatives with the support of the controlling shareholder.
- 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 15, 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, as described in paragraph "3.3. New accounting standards, interpretations and amendments adopted by the Company".

(Euro in thousands)	**31 December 2019**	**FTA 1 January 2019**
Non-current financial liabilities from rights of use	12,055	12,798
Current financial liabilities from rights of use	2,295	1,741
Total financial liabilities from rights of use	**14,350**	**14,539**

In the current financial period, payables relating to finance leases, already recorded in previous financial periods, were reclassified in this item under *Medium/long-term loans* of Euro 707 thousand, and *Interest-bearing financial payables (current portion)*, of Euro 744 thousand, for the non-current and current portion, respectively.

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 2019 and 2018 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**	
							2019	**2018**
Credit Agricole Cariparma	IRS	Fixed interest rate 0.34%	6-month Euribor	07/05/2015	26/03/2020	444,444	(2)	(8)
ICCREA BANCA/BCC	CAP	Interest rate for the period 0.75%	6-month Euribor	27/09/2015	27/09/2020	1,071,429	-	-
Banca Monte dei Paschi di Siena	CAP	Interest rate for the period 0.61%	6-month Euribor	31/12/2016	30/09/2020	833,333	(2)	(12)
Banco BPM	IRS	Fixed interest rate 0.06%	6-month Euribor	03/10/2016	15/12/2020	687,500	(2)	(5)
Banco BPM	IRS	Fixed interest rate 0.12%	3-month Euribor	31/01/2017	30/04/2021	1,372,723	(3)	(4)
Deutsche Bank	CAP	Fixed interest rate 0.00%	3-month Euribor	20/01/2017	30/11/2020	375,000	-	-
BPER Banca	CAP	Interest rate for the period 0.15%	3-month Euribor	18/12/2017	18/03/2021	1,293,586	(3)	(6)
Banco BPM	CAP	Quarterly floating rate 1.5%	3-month Euribor	01/02/2019	30/06/2025	1,571,429	4	-
Assets for derivative instruments within the financial period							**-**	**-**
Assets for derivative instruments beyond the financial period							**4**	**-**
Liabilities for derivative instruments within the financial period							**(6)**	**-**
Liabilities for derivative instruments beyond the financial period							**(6)**	**(35)**

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 2019 and 31 December 2018 of employee benefits:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Present value of the liability at the beginning of the period	1,944	2,138
Financial expense	29	28
Benefits paid	(162)	(150)
Financial loss (profit)	155	(72)
Demographic loss (profit)	(15)	-
Present value of the liability at the end of the period	**1,951**	**1,944**

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)	**2019**	**2018**
Annual discount rate	0.70%	1.55%
Inflation rate	1.50%	1.50%
Expected turnover rate of employees	2.62%	2.62%
Advance rate	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	1,856	2,052

Technical and demographic bases

(Euro in thousands)	Financial period ended 31 December	
	2019	**2018**
Mortality	2004 ISTAT tables	2004 ISTAT tables
Disability	INPS tables	INPS tables
Retirement age	67 N/F	67 N/F

Frequency of turnover and advances on severance indemnity

(Euro in thousands)	Financial period ended 31 December	
	2019	**2018**
Advance frequency %	0.86%	0.87%
Turnover frequency %	23.57%	22.58%

Workforce

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

(average no. of employees)	Financial period ended 31 December	
	2019	**2018**
Managers	7	6
Executives, employees and equated	179	172
Workers	174	165
Total	**360**	**343**

The average number of employees as at 31 December 2019 is substantially in line with the previous financial period.

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 2019 and 2018 financial periods:

(Euro in thousands)	31 December	
	2019	**2018**
Advances from banks against invoices and bills receivables	36,569	39,525
Other financial payables (short-term leases)	-	744
Financial payables due from affiliated companies	5,781	2,339
Payables due to factoring companies	6,601	4,811
Financial payables due to SIMEST	4,000	-
Current portion of medium/long-term loans	9,198	9,932
Total interest-bearing financial payables (current portion)	**61,149**	**57,351**

The current portion of medium/long-term loans increased by Euro 3,798 thousand mainly as a result of the reclassification to short-term portions of Euro 4,000 thousand relating to the loan transaction carried out by Simest S.p.A. in Marais Technologies SAS in 2015 and expired on 30 June 2020, and a lower current portion of medium/long-term loans, against a greater use of factoring.

As at 31 December 2018, the item included, for Euro 744 thousand, the current portion of payables for leased assets, in accordance with the provisions of the previous IAS 17. In accordance with the new IFRS 16 standard, this payable, which as at 31 December 2019 amounted to Euro 287 thousand, is now included in the item *Current financial liabilities from rights of use*.
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. Trade payables

The breakdown of *Trade payables* as at 31 December 2019 and as at 31 December 2018, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2019**	**2018**
Trade payables due to third-parties	31,069	24,201
Trade payables due to related parties	2,652	1,383
Total trade payables	**33,261**	**25,584**

Trade payables as at 31 December 2019 increased compared to the previous financial period of Euro 8,137 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.

22. Income taxes payable

The breakdown of *Income taxes payable* as at 31 December 2019 and as at 31 December 2018, respectively, is indicated in the table below:

	31 December	
(Euro in thousands)	**2019**	**2018**
Current IRES tax liabilities	1,089	661
Current IRAP tax liabilities	398	108
Total income taxes payable	**1,487**	**769**

IRES and IRAP taxes payable as at 31 December 2019 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 opted for the domestic tax consolidation system provided by Article 117 et sequitur of the Consolidated Act on Income Tax with the subsidiary Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. and Tesmec Rail S.r.l. for the 2017/2019 three-year period.
Consequently, in addition to the Parent Company Tesmec S.p.A., the investees Tesmec Automation S.r.l., East Trenchers S.r.l., Bertel S.r.l. and Tesmec Rail S.r.l. are included in the tax consolidation for the 2019 financial year.
Specific consolidation agreements were signed with each subsidiary opting for the domestic tax consolidation system, which regulate the timing and the methods for exchanging the information required to carry out the tax consolidation, the timing and methods for transferring resources among companies resulting from group taxation, as well as the methods for recognising the tax benefit to the companies that transfer, as part of the group taxation, tax losses, surpluses of non-deductible interest expenses and excess deduction to aid economic growth (A.C.E.).

These financial statements were affected by this institute in the following items:

- “Other current assets” of the statement of financial position, which includes the receivable of Euro 131 thousand from the following subsidiaries for the 2019 IRES tax pertaining to the latter:

2019 IRES tax Tesmec Rail S.r.l.	Euro	131 thousand
Total	Euro	131 thousand

- "Other current liabilities" of the statement of financial position, which includes the payable of Euro 359 thousand to the subsidiaries indicated below in connection with the recognition of the tax benefits deriving from the use of the tax losses for the 2019 financial period transferred to the tax consolidation:

Benefit for the use of residual 2019 tax loss Tesmec Automation S.r.l.	Euro	271 thousand
Benefit for the use of residual 2019 tax loss Bertel S.r.l.	Euro	88 thousand
Total	Euro	359 thousand

The tax result for the 2019 financial year referring to the tax consolidation consists, in summary, of the following:

	Financial period ended 31 December
(Euro in thousands)	**2019**
Tax income (loss) of the consolidating company Tesmec S.p.A.	3,328
Tax income (loss) of the consolidated company Tesmec Rail S.r.l.	547
Tax income (loss) of the consolidated company Tesmec Automation s.r.l.	(1,130)
Tax income (loss) of the consolidated company Bertel S.r.l.	(365)
Tax income (loss) of the consolidated company East Trenchers S.r.l.	-
Total consolidated tax income (loss)	**2,380**

23. Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund. The calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.
Changes in the *Provisions for risks and charges* as at 31 December 2019 and 2018 are indicated below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Value as at 1 January	310	250
Provisions	210	60
Uses	-	-
Value as at 31 December	**520**	**310**

The provision for the period is related for Euro 60 thousand to cover the future work under warranty and for Euro 150 thousand to provisions to cover some outstanding disputes.

24. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2019 and 2018:

	Financial period ended 31 December	
(Euro in thousands)	2019	2018
Due to social security	3,289	2,684
Due to INAIL (National Insurance Institute for Industrial Accidents)	242	244
Due to trade funds	408	189
Due to employees and collaborators	2,628	2,537
Due to others	9	11
Payables due to related parties	358	1,040
Accrued expenses and liabilities	400	285
Total other current liabilities	**7,334**	**6,990**

Other current liabilities increased compared to the previous financial period of Euro 344 thousand and refers to the increase in due to social security of Euro 605 thousand offset by and the decrease in payables due to related parties of Euro 682 thousand. This item includes certain past due pension liabilities that are being settled.

25. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2019 and 2018:

	Financial period ended 31 December	
(Euro in thousands)	2019	2018
Deferred tax assets	2,329	2,363
Deferred tax liabilities	1,655	1,603

The breakdown of net deferred taxes as at 31 December 2019 and 2018 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)	2019	2018	2019	2018	2019	2018
Deferred tax assets						
Reversals of intangible assets	6	36	-	-	(30)	(12)
Obsolescence fund	946	890	-	-	56	28
Provisions for future risks and charges	41	-	-	-	41	-
Unrealised exchange-rate losses	972	1,021	-	-	(49)	83
Tax effect on UCC gain reversals	91	151	-	-	(60)	(48)
Provision for bad debts	184	190	-	113	(6)	-
Other temporary differences	89	75	-	-	14	(28)
Total deferred tax assets	**2,329**	**2,363**	**-**	**113**	**(34)**	**23**
Deferred tax liabilities						
Unrealised exchange-rate gains	(1,486)	(1,401)	-	-	(85)	(132)
Profits allocated to network reserve	(199)	(199)	-	-	-	-
Other temporary differences	30	(3)	33	(17)	-	5
Total deferred tax liabilities	**(1,655)**	**(1,603)**	**33**	**(17)**	**(85)**	**(127)**
Net effect on Shareholders' Equity						

Net balance deferred wealth taxes	**674**	**760**
Represented in the income statement as follows:		
Deferred tax assets	**(34)**	**23**
Deferred tax liabilities	**(85)**	**(127)**
Deferred tax liabilities, net	**(119)**	**(104)**

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 2019 and 2018 are summarised below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Pre-tax profits	**5,509**	**5,637**
Current taxation	1,158	1,202
Deferred tax liabilities/(assets)	119	104
Total taxes	**1,277**	**1,306**

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:

		Financial period ended 31 December		
		2019		
(Euro in thousands)		IRES	IRAP	TOTAL
Profit before tax	**A**	**5,659**	**5,659**	
Difference in taxable income between IRES and IRAP	B		1,629	
	C=A+B	5,659	7,288	
Nominal rate (%)	D	24.0%	3.9%	
Theoretical taxes	**E=C*D**	**1,358**	**284**	**1,642**
Tax effect on permanent differences	F	(435)	11	(424)
Tax effect on temporary differences	G	3	-	3
Tax effect on the re-absorption of temporary differences	H	(127)	(7)	(134)
Tax effect on deductible differences recognised in IFRS 9 reserve	I	(1)	-	(1)
Current taxation posted to the income statement	**L=E+F+G+H+I**	**798**	**288**	**1,086**
Deferred tax liabilities	M	87	(2)	85
Deferred tax assets	N	74	1	75
Taxes related to prior financial periods	O	70	2	72
Foreign income taxes	P	-	-	-
Income from tax consolidation	Q	-	-	-
Aggregate tax posted to the income statement	**R=L+M+N+O+P+Q**	**1,029**	**289**	**1,318**

Comments to the main items in the income statement

26. Revenues from sales and services

In the 2019 and 2018 financial periods, revenues from sales and services amounted to Euro 100,297 thousand and Euro 93,079 thousand with an increase of 7.8%. The breakdown is set below:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Sales of products	96,345	87,865
Services rendered	3,952	5,214
Total revenues from sales and services	**100,297**	**93,079**
Changes in work in progress	-	-
Total revenues from sales and services	**100,297**	**93,079**

Revenues from *sales of goods* refer to transfer of machines and equipment for Energy, Trenchers and Rail.

27. Cost of raw materials and consumables

For the financial periods as at 31 December 2019 and 2018, cost of raw materials and consumables amounted to Euro 53,574 thousand and Euro 49,471 thousand, respectively. The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Cost for the purchase of raw materials and consumables	53,658	48,437
Change in inventories	(84)	1,034
Total cost of raw materials and consumables	**53,574**	**49,471**

Cost of raw materials and consumables increased more than proportionally than the increase in sales volumes due to the different margins given by the different sales mix of the segments.

28. Costs for services

The table below shows the breakdown of *Costs for services* that amounted in 2019 and in 2018 to Euro 15,942 thousand and Euro 14,402 thousand, respectively.

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Transport, customs and incidental expenses	2,841	2,462
Outsourced work service	2,504	2,086
Services for legal, tax, technical and other consultancy	3,695	3,177
External production services	144	47
Banking services	472	518
Insurance	436	305
Energy, water, gas, telephone expenses and postage	745	807
Board and lodging expenses and travelling allowance	898	797
Directors' and Auditors' fees	840	970
Advertising and other selling expenses	647	493
Maintenance services	406	378

Commissions and additional expenses	1,383	1,549
Other general expenses	931	813
Total costs for services	**15,942**	**14,402**

The item increased by Euro 1,540 thousand compared to the previous financial period due to higher costs for outsourced work services of Euro 418 thousand and legal, tax, technical and other consultancy costs of Euro 518 thousand.

29. Payroll costs

During the financial periods ended 31 December 2019 and 2018, payroll costs amounted to Euro 20,384 thousand and Euro 19,077 thousand, respectively, up by 6.9%, mainly for the adjustment plans of the technical departments in line with the increased complexity of the offer of the Company.

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Wages and salaries	15,819	14,377
Social security charges	3,384	3,706
Employee severance indemnity	965	864
Other personnel costs	216	130
Total payroll costs	**20,384**	**19,077**

The item increased by Euro 1,307 thousand following the increase in the workforce.
The average composition of staff is given in Note 19.

30. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2019 and 31 December 2018, *other operating (costs)/revenues, net* amounted to Euro 78 thousand and Euro 1,602 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Provisions for risks and other net provisions	410	160
Rents	34	2,068
Hiring	892	1,623
Other lease and rental expenses	35	47
Sundry taxes	104	94
Other revenues	(1,099)	(921)
Income for Research and Development tax credits	(886)	(1,757)
Contingent assets/liabilities	(60)	(111)
Other expenses	648	399
Total other operating revenues, net	**77**	**1,602**

Other operating (costs)/revenues, net decreased by Euro 1,524 thousand as a consequence of the adoption of IFRS 16 that envisages the reversal of rent and lease payments against the recognition of depreciation on the rights of use of leased assets and financial expenses. The residual portion as at 31 December 2019 of Rents, Hiring and Other lease and rental expenses are recognised in the income statement in that the relative contracts do not meet the requirements of IFRS 16 for their recognition as rights of use.

The item other revenues includes the value of the benefit of the tax credit for 2019 of Euro 886 thousand compared to Euro 1,757 thousand for 2018.

The item Provisions for risks and other net provisions of Euro 410 thousand includes the provision to the allowance for doubtful receivables of Euro 200 thousand and the provision for risks amounting to Euro 210 million.

31. Amortisation and depreciation

During the financial periods ended 31 December 2019 and 31 December 2018, amortisation and depreciation amounted to Euro 6,201 thousand and Euro 4,298 thousand, respectively, with a 44.3% increase, as a result of the adoption of IFRS 16, to which reference has already been made.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Amortisation of intangible assets	2,996	3,167
Depreciation of property, plant and equipment	1,007	1,131
Depreciation of right of use	2,198	-
Total amortisation and depreciation	**6,201**	**4,298**

32. Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2019 and 31 December 2018 amounted to Euro 1,946 thousand and Euro 2,578 thousand, respectively.
During the financial period, the increase in the item is related to the development of projects for the launch of new models and new functions requested by the markets in which the Company operates.
The percentage incidence on revenues of development costs capitalised decreased from 2.8% for the 2018 financial period to 1.9% for the 2019 financial period.

33. Financial expenses

During the financial periods ended 31 December 2019 and 2018, financial expenses amounted to Euro 5,079 thousand and Euro 4,433 thousand, respectively, with an increase of Euro 646 thousand.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(Euro in thousands)	**2019**	**2018**
Interests payable for factoring and billing discounts	499	151
Interests payable on interest-bearing medium/long-term loans and borrowings	2,506	2,191
Interests payable on advance loans on exports	267	228
Other sundry financial expenses	487	235
Financial expenses on rights of use	602	-
Financial expenses on lease contracts	-	76
Realised foreign exchange losses	338	784
Unrealised foreign exchange losses	380	765
Fair value adjustment of derivative instruments	-	3
Total financial expenses	**5,079**	**4,433**

The item *financial expenses* increased compared to the previous financial period of Euro 646 thousand mainly due to financial expenses on rights of use of Euro 602 thousand recorded following the adoption of IFRS 16.

34. Financial income

During the financial periods ended 31 December 2019 and 2018, financial income amounted to Euro 4,523 thousand and Euro 3,264 thousand, respectively.
The breakdown of the item is as follows:

(Euro in thousands)	**Financial period ended 31 December**	
	2019	**2018**
Interests from banks	1	2
Realised foreign exchange gains	340	635
Unrealised foreign exchange gains	935	969
Fair value adjustment of derivative instruments	27	55
Dividends	1,500	244
Sundry income	1,720	1,359
Total financial income	**4,523**	**3,264**

Financial income increased by Euro 1,259 thousand mainly due to:

- increase in foreign exchange gain (realised and unrealised) of Euro 329 thousand due to a more favourable USD/EUR exchange rate trend;
- dividends of Euro 1,500 thousand deriving from the subsidiary Tesmec Rail S.r.l.

35. Related party transactions

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

(Euro in thousands)	**31 December 2019**							**31 December 2018**						
	Financial receivables and other non-current financial assets	**Trade receivables**	**Current financial receivables**	**Other current assets**	**Current financial payables**	**Trade payables**	**Other current liabilities**	**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.	-	3,938	12,943	-	3,610	36	-	-	1,221	14,028	-	-	9	-
Tesmec Service S.r.l.	-	-	-	-	-	-	-	4,500	1,376	500	717	3	4	-
East Trencher S.r.l.	-	40	19		-	-	-	-	-		-	11	-	3
Tesmec SA	-	113	454	50	-	-	-	-	127	2,065	33	-	-	-
Tesmec RUS	-	1,096	715	-	-	-	-	-	852	627	-	-	-	-
Tesmec Automation S.r.l.	-	63	8,171	-	-	1,676	271	-	78	6,114	-	-	11	754
Tesmec New Technology (Beijing)	-	31	928	-	-	206	-	-	1,162		-	-	78	-
Marais Technologies SAS	-	7	1,910	-	-	-	-	-	59	1,830	-	-		-
Group Marais SAS	-	1,716	696	-	-	196	-	-	872	2,186	-	-	545	-
Tesmec Australia Ltd. (former	-	2,841	6,936	4	-	-	-	-	2,781	370	-	-	-	-

Marais Laying Tech. Ltd. AUS)														
Marais Laying Tech. Ltd. NZ	-	48	1,079	-	-	-	-	-	251	-	-	-	-	-
Marais Cote d'Ivoire	-	63	-	-	-	-	-	-	7	-	-	-	-	-
Bertel S.r.l.	-	-	1,282	-	-	-	88	-	30	3,494	-	-	-	283
Tesmec Rail S.r.l.	3,500	117	2,500	132	13	27	-	-	1	-	157	-	-	-
Subtotal	**3,500**	**10,073**	**37,633**	**186**	**3,623**	**2,141**	**359**	**4,500**	**8,819**	**31,214**	**907**	**14**	**647**	**1,040**
Associates:														
Locavert S.A.	-	421	-	-	-	-	-	-	43	-	-	-	3	-
Subtotal	**-**	**421**	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**-**	**-**	**-**	**3**	**-**
Joint Ventures:														
Condux Tesmec Inc.	-	2,187	425	-	-	2	-	-	394	656	-	-	-	-
Tesmec Peninsula	-	147	2,061	-	1,658	-	-	-	174	2,022	-	1,996	-	-
Subtotal	**-**	**2,334**	**2,486**	**-**	**1,658**	**2**	**-**	**-**	**568**	**2,678**	**-**	**1,996**	**-**	**-**
Related parties:														
Ambrosio S.r.l.	-	-	-	-	-	9	-	-	-	-	-	-	5	-
Dream Immobiliare S.r.l.	-	-	562	-	-	51	-	-	-	720	-	-	273	-
TTC S.r.l.	-	-	-	-	-	61	-	-	-	-	-	-	113	-
Fi.ind.	-	-	-	-	-	-	-	-	26	-	-	-	-	-
M.T.S. Officine meccaniche S.p.A.	-	12	-	-	500	388	-	-	146	-	-	329	342	-
MTS4SERVICE USA LLC	-	704	-	-	-	-	-	-	32	-	-	-	-	-
Subtotal	**-**	**716**	**562**	**-**	**500**	**509**	**-**		**204**	**720**	**-**	**329**	**733**	**-**
Total	**3,500**	**13,544**	**40,681**	**186**	**5,781**	**2,652**	**359**	**4,500**	**9,634**	**34,612**	**907**	**2,339**	**1,383**	**1,040**

	Financial period ended 31 December					**Financial period ended 31 December**				
	2019					**2018**				
(Euro in thousands)	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/revenues, net**	**Financial income and expenses**	**Revenues**	**Cost of raw materials**	**Costs for services**	**Other operating (costs)/revenues, net**	**Financial income and expenses**
Subsidiaries:										
Tesmec USA, Inc.	11,562	(153)	(3)	189	150	3,373	(42)	-	86	260
Tesmec Service S.r.l.	-	-	-	-	-	6,155	(4)	16	370	168
East Trencher S.r.l.	58	-	-	3	-	-	-	-	3	-
Tesmec SA	475	-	(7)	4	56	2,871	-	(3)	3	389
Tesmec RUS	239	-	-	2	53	292	-	(3)	1	26
Tesmec Automation S.r.l.	67	(1,362)	11	87	202	29	-	-	140	209
Tesmec New Technology (Beijing)	30	(182)	(163)	-	65	512	(175)	(3)	1	-
Tesmec Rail S.r.l.	5,481	(66)	24	246	1,568	14	-	1	12	5
Marais Technologies SAS	-	-	-	-	29	-	-	-	-	27
Group Marais SAS	4,539	(1,197)	(32)	71	81	2,681	(1,149)	(71)	30	-

Tesmec Australia Ltd. (former Marais Laying Tech. Ltd. AUS)	2,920	-	-	18	236	1,492	-	-	15	-
Marais Laying Tech. Ltd. NZ	525	-	-	4	15	37	-	-	5	-
Marais Cote d'Ivoire	62	-	-	2	-	-	-	-	3	-
Marais Guinee SARLU	-	-	-	-	-	-	-	-	-	-
Bertel S.r.l.	-	-	-	3	76	-	-	-	3	120
Tesmec Rail S.r.l.	-	-	-	-	-	-	-	-	-	-
Subtotal	**25,958**	**(2,960)**	**(170)**	**629**	**2,531**	**17,456**	**(1,370)**	**(63)**	**672**	**1,204**
Associates:										
Locavert S.A.	588	(9)	-	-	6	(145)	-	(3)	-	-
Bertel S.r.l.	-	-	-	-	-	-	-		-	-
Subtotal	**588**	**(9)**	**-**	**-**	**6**	**(145)**	**-**	**(3)**	**-**	**-**
Joint Ventures:										
Condux Tesmec Inc.	3,762	-	(33)	178	10	3,515	-	(9)	170	253
Tesmec Peninsula	303	-	-	-	46	250	(309)	(35)	-	50
Subtotal	**4,065**	**-**	**(33)**	**178**	**56**	**3,765**	**(309)**	**(44)**	**170**	**303**
Related parties:										
Ambrosio S.r.l.	-	-	-	(9)	(2)	-	-	-	(14)	-
Ceresio Tours S.r.l.	-	-	(9)	-	-	-	-	(8)	-	-
Dream Immobiliare S.r.l.	-	-	-	(14)	(307)	-	-	-	(2,085)	-
TTC S.r.l.	-	-	(94)	-	-	-	-	(99)	-	-
Fi.ind.	-	-	-	27	-	-	-	-	54	-
M.T.S. Officine meccaniche S.p.A.	8,085	-	5	(545)	(8)	4,649	-	6	(1,104)	(23)
MTS4SERVICE USA LLC	704	-	-	-	-	-	-	-	-	19
Subtotal	**8,789**	**-**	**(98)**	**(541)**	**(317)**	**4,649**	**-**	**(101)**	**(3,149)**	**(4)**
Total	**39,400**	**(2,969)**	**(301)**	**266**	**2,276**	**25,725**	**(1,679)**	**(211)**	**(2,307)**	**1,503**

- 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 purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec, Inc.: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula WLL: the JV operates on the Saudi Arabian market supplying trencher machinery produced by the Group as well as on-site and after-sale support services. The income and cost items relate to the normal marketing activities of trenching machines;
- Dream Immobiliare S.r.l.: Financial income and expenses includes expenses related to the rentals for the Building of Grassobbio and Endine;
- 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.

Relationships with the related party MTS Officine meccaniche S.p.A. and with its American subsidiary MTS 4 Service USA LLC continued during the 2019 financial period based on the agreements entered into on 27 October 2017. The continuation of these agreements involved the sale of a further 5 trencher machines for a total of 6,152 thousand Euro, revenues for accessory services for 200 Euro thousand and costs for the rental business for Euro 555 thousand.

The remaining Euro 2,437 thousand of revenues refer to the sale of semi-finished products, for which Tesmec is a historic supplier of MTS Officine meccaniche S.p.A.

As at 31 December 2019, a total of 14 machines were sold as from 2017 and in line with the agreements then made, for a total value of Euro 10,335 thousand fully collected, revenues for services amounted to Euro 305 thousand and costs for the rental business totalled Euro 1,673 thousand, fully paid.

36. Fees paid to Directors, Auditors, Operating Manager and executives with strategic responsibilities

Year 2019:

Board of Directors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	465,808	-	465,808
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	34,192	-	34,192
Simone Andrea Crolla	Director	21,288	-	21,288
Emanuela Teresa Basso Petrino	Director	29,519	-	29,519
Guido Luigi Traversa	Director	21,288	-	21,288
Guido Corbetta	Director until 16 April 2019	5,808	-	5,808
Gioacchino Attanzio	Director until 16 April 2019	8,712	-	8,712
Sergio Arnoldi	Director until 16 April 2019	6,041	-	6,041

Board of Statutory Auditors				
Name and Surname	**Role**	**Fees (in Euro)**	**Bonus and other fees (in Euro)**	**Total fees (in Euro)**
Simone Cavalli	Chairman	39,821	-	39,821
Stefano Chirico	Statutory Auditor	26,468	-	26,468
Alessandra De Beni	Statutory Auditor	26,000	-	26,000

Fees paid to executives with strategic responsibilities in the 2019 financial period amounted to Euro 412 thousand (Euro 352 thousand in the 2018 financial period).

37. Summary statement of considerations to the Independent Auditors and to the entities belonging to its network

Pursuant to Article 149- *duodecies* of the Consob Issuer Regulation (Resolution no. 11971/1999 and subsequent amendments), the following table shows the fees charged in the financial statements ended 31 December 2019 and 2018 for auditing services and for services other than audit rendered by the Company Deloitte & Touche S.p.A. for the 2019 financial period and by EY S.p.A. for the 2018 financial period, respectively.

(Euro in thousands)	Independent Auditors that supplied the service	2019	Independent Auditors that supplied the service	2018
Audit of the financial statements and consolidated financial statements	Deloitte & Touche S.p.A.	102	EY S.p.A.	161
Limited half-year auditing	Deloitte & Touche S.p.A.	28	EY S.p.A.	28
Limited auditing of Non-Financial Information	Deloitte & Touche S.p.A.	15	EY S.p.A.	23
Auditing services on a voluntary basis (1)	Deloitte & Touche S.p.A.	-	EY S.p.A.	100
Certification services (2)	Deloitte & Touche S.p.A.	-	EY S.p.A.	5
Total		**145**		**317**

(1) The auditing services on a voluntary basis have been provided to the Parent Company in relation to the review of the research and development tax credit assessment table. For 2019, although already partly contractually agreed, the related services have not yet been rendered at the date of this report.

(2) The item refers to activities aimed at signing Tax Declarations. For 2019, although already partly contractually agreed, the related services have not yet been rendered at the date of this report.

38. Legal and tax disputes

With reference to an ongoing dispute with a French former distributor, on 14 February 2019, the Lyon Court of Appeal, significantly reviewing the favourable judgement in first instance, ordered Tesmec to pay Euro 2.1 million for various reasons, including the alleged violation of the exclusivity clause and the alleged unjustified breach of the distribution contract. Tesmec, in compliance with the pronouncement of the Lyon Court of Appeal, made the payment into a special escrow account, according to the French practice. On 22 July 2019, the appeal to the Court of Cassation was filed, and in parallel, on 20 August 2019, the action for repeal before the Lyon Court of Appeal was filed. With reference to this case, no provision was made for risks, having obtained the opinion of the legal advisors appointed to assist Tesmec, according to whom the Company's position is well-grounded since there is evidence in this regard of the correct behaviour of the Company and the consequent confirmation of the favourable judgement in first instance, as well as the prompt repayment of the amount paid into the escrow account in 2020.

In March 2018, Tesmec carried out the arbitration award obtained at the China International Economic and Trade Arbitration Commission of Beijing (CIETAC) and obtained the payment of more than Euro 1.3 million (principal, interest, legal costs) on the current account of the execution Judge treasury at the Beijing Court for a receivable claimed from a trading company. Due to the restrictions imposed by the current currency rules, the Judge was identified as the "trustee" to receive the payment made by the Chinese counterparty and then pay into the Tesmec account. Before the Judge could order the transfer, the counterparty filed an application for seizure of the sums, granted by the Judge against the filing of counterclaim for compensation for alleged damages for which the Chinese counterparty is seeking refund, jointly and severally, from Tesmec and a Chinese company that at the time was responsible for certain import procedures. On 7 January 2020, the lawsuit for damages was dismissed.
In the meantime, since the Beijing Ordinary Court recognised the CIETAC international arbitration court (which has already issued a favourable arbitration award as for the previous contracts) as the competent jurisdiction for the payment of further Euro 491 thousand, Tesmec started new arbitration proceedings against the trading company.
The fact that CIETAC has been granted jurisdiction is favourable for the Company in the opinion of the lawyers since the activation of a second CIETAC arbitration that has already analysed in the first proceedings the case of a contract on cross-appeal, recognising the performance of the supply of Tesmec, will probably lead to the confirmation of the analysis already carried out by the Board with order of Chinese counterparty to pay the main amount plus penalties.

In April 2019, the Parent Company Tesmec S.p.A. received an injunction from the Court of Milan to pay Euro 0.25 million to a French company, in performance of some contractual agreements dating back to the years 2015-2017. Tesmec opposed this decree in June 2019 and, pointing out its own reconstruction of the facts and relations, it appeared in court and at the same time filed a counterclaim for damages caused by the counterparty. By order of 25 February 2020, the Appointed Judge adjourned the hearing to 23 June 2020 but granted provisional enforcement of the opposed injunction. In order to prevent the dispute from dragging on, the Company mandated its lawyers to enter into negotiations with the counterparty in order to reach a settlement, for which a provision for risks was made.

During June 2019, a tax audit by the Italian Inland Revenue 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 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.

39. Positions or transactions resulting from atypical and/or unusual operations

Note that, pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, in 2019 the Company did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

40. Commitments and risks

They include sureties, guarantees and third-party assets with the Company. For the financial periods as at 31 December 2019 and 2018, they are summarised as follows:

	31 December	
(Euro in thousands)	**2019**	**2018**
Sureties	93,108	94,701
Total commitments and risks	**93,108**	**94,701**

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.

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

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

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

- on 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 with immediate effect, 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 58/1998.

Moreover, note that, 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 Company and the Group are monitoring and managing this phenomenon with great attention by applying all the appropriate health and safety protocols in full compliance with the provisions of the Ministry of Health. These circumstances, which are extraordinary in nature and extent, have direct and indirect repercussions on economic activities and created a general uncertainty, the development and effects of which are not currently foreseeable; therefore, the potential effects of this phenomenon on the financial statements will be constantly monitored throughout the year. Based on what is known to date, the Company and the Group believe that the impact of this situation does not have material consequences on ordinary activities in the medium term, while short-term liquidity requirements could arise as a result of the slowdown in production and commercial activities, against which the support of the controlling shareholder is confirmed, also through the signing of a loan agreement up to Euro 7 million, to be disbursed as needed and usable for the next three years.

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 2019 financial period.

2. We also certify that:

2.1 the financial statements as at 31 December 2019:

   - have been prepared in accordance with IFRS as endorsed by the European Union, as provided by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the amounts shown in the Company's accounts, books and records;
   - 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 directors’ report includes a reliable analysis of the business trend and operating result as well as of the situation of the issuer, together with a description of the main risks and uncertainties they incur.

Milan, 13 March 2020

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 2019, 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.

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 5° March 2019, 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, during the 2019 financial period, relations continued with the related party MTS – Officine Meccaniche di Precisione S.p.A and its American subsidiary MTS4 Service USA LLC based on the agreements signed on 27 October 2017. With reference to such operations, with the help of the Board of Directors and of the Control and Risk Committee we verified the existence of and compliance with procedures designed to ensure that they are concluded at market conditions and conforming to the normal management of the company. In this regard, we also supervised the compliance with the principles indicated in the CONSOB Regulation containing provisions on related party transactions adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the “OPC Regulation”), of the subsequent Procedure for Related Party Transactions, adopted by the Board of Directors on 11 November 2010 and updated last version on 1 March 2018 in order to take in force of the

regulation introduced by the Market Abuse Regulation;

- 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 didn't make transactions on its own shares;
- no complaints were received ex Article 2408 of the Italian Civil Code nor statements from third parties;
- we supervised the observance of the regulations established by Legislative Decree 254/2016, examining the Consolidated Disclosure of Non-financial information, also ascertaining compliance with the provisions that govern its preparation pursuant to the aforementioned Decree;
- in our capacity as Audit Committee, we submitted on 28 February 2019 our justified recommendation, prepared pursuant to art. 13, paragraph 1 of Legislative Decree n. 135 dated 17 July 2016 and to art. 16 of the EU Reg. 537/2014;
- during the year ended 31 December 2019, the Company has not engaged Deloitte & Touche S.p.A. to provide further services other than those related to the audits of the Company and the Group;
- 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 30 March 2020 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 30 March 2020, 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 2019.

  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 2019, 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 2019 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;

- o 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;
- o 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 30 March 2020 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 hthat 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, and 11 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 17 times including 9 in joint session with the Control and Risk Committee;
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption was approved by the Board of Directors during the meeting of 23 February 2010. As described in the section of the Report of the Board of Directors, the Group adheres to the Code of Conduct for listed companies approved in March 2006 (as amended in March 2010, December 2011, July 2014, July 2015 and July 2018) by the Committee for the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. with additions and amendments related to the characteristics of the Group. Adherence to the rules laid down by the said code has been verified by us and has been the subject of the Report on Corporate Governance and Ownership Structure attached to the budget and subject to the same terms of advertising as applied to the financial statement;

- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, compliance with the rules of laws concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), of which the Code of Ethics is an integral part; the aim is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. 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;
- in compliance with the Law 124/2017, Tesmec has provided in the explanatory notes to the financial statements the mandatory information required for the subjects who receive subsidies, contributions, paid assignments and, in any case, economic advantages of any kind from public administrations;
- the Directors, in the paragraph called “Main risks and uncertainties to which the Tesmec Group is exposed” on the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks is provided.
- As described in detail in the paragraph “Business outlook” of the Report on operations, 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 is monitoring and managing this phenomenon with great attention by applying all the appropriate health and safety protocols in full compliance with the provisions of the Ministry of Health. These circumstances, which are extraordinary in nature and extent, have direct and indirect repercussions on economic activities and created a general uncertainty, the development and effects of which are not foreseeable; therefore, the potential effects of this phenomenon on the financial statements will be constantly monitored throughout the year. Based on what is known to date, the Group believes that the impact of this situation does not have material consequences on ordinary activities in the medium term, while short-term liquidity requirements could arise as a result of the slowdown in production and commercial activities, against which the support of the controlling shareholder is confirmed, also through the signing of a loan agreement up to Euro 7 million, to be disbursed as needed and usable for the next three years; the Board of statutory auditors ensure its highest attention to the development of this phenomenon, still evolving, and to the impacts on the Group’s financial performance;

- this situation led the Board of Directors to hold by means of electonic participation its meetings on 5 March and on 13 March - the latter having resolved to approve the 2019 Annual Financial Report and call the Shareholders' meeting on 21 May 2020 – and also led the Board of Statutory Auditors to perform its tasks through meetings exclusively held "remotely" (the Independent Auditors have operated similarly);
- with regards to the Shareholders' meeting, called on 21 May 2020, the Board of Statutory Auditors notes that Law Decree 18/2020 authorizes the ordinary and extraordinary meetings 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 2019, 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.

Bergamo, 30 March 2020

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, 2019, 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, 2019, 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 as well as 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 the 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 to 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 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, in the context of the use of estimates applicable for the circumstances.

The notes 2.2. *"Significant accounting policies – Revenues from contract with customer"* 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 processes and procedures related to revenue recognition in accordance with applicable financial reporting standards;

- assessed the process and identifyied the key controls implemented by the Company for revenue recognition;

- gained an understanding of the substance of the sale transactions and performed sample-based substantive procedures to test revenue 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 international 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 63.8 million, which includes current net financial indebtedness amounting to Euro 13.4 million. Certain medium/long-term loan contracts provide the respect of some financial covenants that as at the balance sheet date, for one of such covenants provided by two contracts, have not been met; accordingly, the Company reclassified to current liabilities the medium/long-term portion of the related financial debts, amounting to Euro 0.5 million. After the balance sheet date, regarding one of the above mentioned loans, the Company requested to the lender the waiver for the application of the covenant provisions. The process of obtaining such waiver is still ongoing. Regarding the other loan contract, the entire reimbursement of the debt is in any case provided in the short term according to the original terms.

The compliance with such 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 Company to fulfill its obligations in the forseeable future.

The note 15 "Medium/long-term loans" of the financial statements provides disclosure on the Company's financial covenant provisions and 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 the relevant communications between the Management of the Company and the lender about the waiver request; - reviewed the accuracy of the covenants' calculations prepared by the Management of the Company based on the criteria provided in the loan contracts; - assessed the presentation and classification of financial liabilities in the financial statements; - verified the disclosures provided in the financial statements.
Transactions with a related party	
Description of the key audit matter	During the current year the Company entered significant transactions with a related party under a multi-year agreement signed during fiscal year 2017, and concerning: i. the sale to the related party of certain machines produced by Tesmec; ii. the supply of the related party of logistic and maintenance services; iii. the option given to the Company to use such machines sold under short-term lease agreements. The considerations provided under such agreement are determined based on the company's list prices and other terms and conditions applied also to third parties. Under this agreement, the Company in 2019 (i) recognized Euro 6.2 million of revenues from machines sold; (ii) recognized Euro 0.2 million of revenues from related services and (iii) incurred Euro 0.6 million of rental costs. Considering the relevance of the transactions with such related party, we deemed that this area a key audit matter. The paragraph 10 "*Related parties transactions*" of the Directors' report on operations and the note 35 "*Related parties transactions*" of the financial statements provide disclosure on the transactions with the related party and the compliance with the agreement signed in 2017.
Audit procedures performed	As part of our audit, we have, among other procedures, carried out the following: - assessed the application of the Company's internal policy applicable for transactions with related parties, included obtaining and reviewing the minutes of the Committee in charge of verifying transactions with related parties occurred during 2019 and after year-end; - performed testing of transactions occurred during the year in accordance with the multi-year agreement signed with the related party; - verified the disclosures provided in the financial statements in accordance with international accounting standards.

Impairment Test on investments	
Description of the key audit matter	The Company recognizes investments in subsidiaries for Euro 56.4 million, and investments in affiliated companies for Euro 1.7 million as at December 31, 2019. As required by the IAS 36, due to the presence of impairment indicators, the Directors tested the value of investments for impairment in order to ensure that such investment is carried in the financial statements as of December 31, 2018 at no more than its recoverable amount. The recoverable value of the investment 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 13, 2020, 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 the Management. These assumptions are influenced by future expectations regarding market scenarios. Moreover, also considerating the extraordinary circumstances arising from the Covid-19 emergency, the Management prepared sensitivity analyses as decribed in the explanatory notes. Considering the importance of the amount of the investments carried in the financial statements, of 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 "*Shareholdings in controlled companies, affiliated companies 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 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;

- developed an understanding of the methodology used by Management for the impairment test and examined its compliance with applicable accounting principles;

- 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.

Other matter

The financial statements of Tesmec S.p.A. for the year ended December 31, 2018, have been audited by another auditor that on March 15, 2019 issued an unmodified opinion on the financial statements.

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, 2019, including its consistency with the related financial statements and its 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 31,2019 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, 2019 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 30, 2019

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 2019 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 2019, which includes, under Article 126 of Consob Regulation no. 11971/99, the investments held in companies with unlisted shares or in limited liability companies, in more than 10% of the capital.

CHANGES IN INVESTMENTS MADE DURING FINANCIAL PERIOD ENDED 31 DECEMBER 2019

	31 December 2018			**Increases**		**Decreases**		**Other changes**	**31 December 2019**		
Company	Quantity	%	Value	Quantity	Cost	Quantity	Cost	Write-down Revaluation	Quantity	%	Value
Subsidiaries consolidated											
Tesmec USA Inc.	15,600,000	100.00%	21,261,434	-	-	-	-	-	15,600,000	100.00%	21,261,434
Tesmec Service S.r.l.	100,000	100.00%	3,595,882	-	-	(100,000)	(3,595,882)	-	-	-	-
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	-	-	-	-	-	100,000	100.00%	145,000
Tesmec Automation S.r.l.	10,000	100.00%	3,025,600	-	1,000,000	-	-	-	10,000	100.00%	4,025,600
Tesmec France EURL	3,000	100.00%	-	-	-	-	-	-	3,000	100.00%	-
Tesmec New Technology (Beijing)	200,000	100.00%	200,000	-	-	-	-	-	200,000	100.00%	200,000
Marais Technologies	378,576	66.04% (2)	10,813,664	-	-	-	-	-	378,576	66.04% (2)	10,813,664
Tesmec Australia (Pty) Ltd. (former Marais Laying Tech. (Pty) Ltd. AUS)	3,060,000	51.00% (3)	1,923,724	-	1,843,260	-	-	-	3,060,000	51.00% (3)	3,766,984
Bertel S.r.l.	200,000	100.00%	4,035,400	-	257,835	-	-	-	200,000	100.00%	4,293,235
Tesmec Rail S.r.l.	10,000	100.00%	3,010,000	-	3,595,882	-	-	(1,000,000)	10,000	100.00%	5,605,882
Total			**54,317,079**		**6,696,977**		**(3,595,882)**	**(1,000,000)**			**56,418,174**
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 shareholding of the subsidiary Tesmec SA is consolidated on a 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 shareholding 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 shareholding of the subsidiary Tesmec Australia (Pty) Ltd. is consolidated on a 100% basis.

www.tesmec.com

Tesmec S.p.A.
Registered Office
Piazza S. Ambrogio, 16 - 20123 Milano - Italy

Share Capital Euro 10.708.400 fully paid
VAT identification code IT10227100152