TESMEC

Annual Financial Report 2010

60 YEARS ANNIVERSARY

1951 - 2011

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NOTICE OF CALL

I Signori azionisti sono convocati in Assemblea in sede ordinaria presso Borsa Italiana S.p.A. (Palazzo Mezzanotte, Piazza Affari, 6, Milano) per il giorno 28 aprile alle ore 16.00 in prima convocazione, ed occorrendo, in seconda convocazione, per il giorno 6 maggio 2011, stesso luogo ed ora, per discutere e deliberare sul seguente:

ORDINE DEL GIORNO

1. Esame ed approvazione del bilancio al 31 dicembre 2010 e delle relative relazioni; destinazione del risultato dell'esercizio; deliberazioni inerenti e conseguenti.

Il capitale sociale TESMEC è di Euro 10.708.400,00 rappresentato da n. 107.084.000 azioni ordinarie. Ogni azione dà diritto a un voto nelle assemblee ordinarie e straordinarie della Società.

Ai sensi dell'art. 83-*sexies* del D. Lgs. 24 febbraio 1998, n. 58, la legittimazione all'intervento in Assemblea ed all'esercizio del diritto di voto è attestata da una comunicazione alla Società, effettuata dall'intermediario, in favore del soggetto cui spetta il diritto di voto, sulla base delle evidenze risultanti dalle proprie scritture contabili, al termine della giornata contabile del settimo giorno di mercato aperto precedente la data fissata per l'Assemblea in prima convocazione, coincidente con il giorno 15 aprile 2011. Le registrazioni in accredito e in addebito compiute sui conti successivamente a tale termine non rilevano ai fini della legittimazione all'esercizio del diritto di voto in Assemblea.

Ogni soggetto legittimato a intervenire in Assemblea può farsi rappresentare mediante delega scritta ai sensi delle vigenti disposizioni di legge, sottoscrivendo il modulo di delega rilasciato a richiesta dell'avente diritto dagli intermediari abilitati oppure il modulo di delega reperibile sul sito internet www.tesmec.com.

La delega può essere notificata alla Società mediante invio a mezzo raccomandata presso la sede amministrativa in Grassobbio, Via Zanica 17/O ovvero mediante posta elettronica all'indirizzo: ir@tesmec.it

La delega può essere conferita, con istruzioni di voto, al dott. Marco Cabisto all'uopo designato dalla Società ai sensi dell'articolo 135-*undecies* del TUF, sottoscrivendo il modulo di delega reperibile sul sito internet www.tesmec.com a condizione che essa pervenga al medesimo, mediante invio a mezzo raccomandata presso la sede amministrativa, ovvero mediante comunicazione via posta elettronica all'indirizzo ir@tesmec.it, entro la fine del secondo giorno di mercato precedente la data fissata per l'Assemblea in prima convocazione (ossia, entro il 26 aprile 2011). La delega in tal modo conferita ha effetto per le sole proposte in relazione alle quali siano state conferite istruzioni di voto. La delega e le istruzioni di voto sono revocabili entro il medesimo termine di cui sopra. Non sono previste procedure di voto per corrispondenza o con mezzi elettronici.

Ai sensi dell'art. 127-*ter* del D. Lgs. 24 febbraio 1998, n. 58, i soci possono porre domande sulle materie all'ordine del giorno anche prima dell'Assemblea mediante invio a mezzo raccomandata A/R presso la sede amministrativa, nonché mediante comunicazione elettronica all'indirizzo ir@tesmec.it. Alle domande pervenute prima dell'Assemblea è data risposta al più tardi durante la stessa. La Società può fornire una risposta unitaria alle domande aventi lo stesso contenuto.

Ai sensi dell'art. 126-*bis* del D. Lgs. 24 febbraio 1998, n. 58, i soci che, anche congiuntamente, rappresentano almeno un quarantesimo del capitale sociale con diritto di voto possono chiedere, entro dieci giorni dalla pubblicazione del presente avviso, l'integrazione delle materie da trattare, indicando nella domanda gli ulteriori argomenti da essi proposti. Le domande devono essere presentate per iscritto. I soci che richiedono l'integrazione dell'ordine del giorno devono predisporre una relazione sulle materie di cui essi propongono la trattazione da consegnarsi all'organo di amministrazione entro il termine ultimo per la presentazione della richiesta di integrazione. Delle eventuali integrazioni all'ordine del giorno, sarà data notizia nelle stesse forme prescritte per la pubblicazione del presente avviso di convocazione, almeno quindici giorni prima di quello fissato per l'Assemblea. Si ricorda che l'integrazione non è ammessa per gli argomenti sui quali l'Assemblea delibera, a norma di legge, su proposta degli amministratori o sulla base di un progetto o relazione da loro predisposti.

La documentazione relativa all'Ordine del Giorno prevista dalla normativa vigente sarà messa a disposizione del pubblico contestualmente alla pubblicazione del presente avviso presso la sede sociale, la sede amministrativa in Grassobbio, Via Zanica 17/O e Borsa Italiana S.p.A., nonché sul sito della Società www.tesmec.com, ad eccezione del progetto di bilancio e delle relative relazioni che saranno messe a disposizione almeno 22 giorni antecedenti l'Assemblea in prima convocazione, precisando altresì che i Soci hanno la facoltà di ottenerne copia.

All'Assemblea possono assistere esperti, analisti finanziari e giornalisti che a tal fine sono invitati a far pervenire richiesta di partecipazione almeno due giorni prima dell'adunanza al seguente recapito: fax +39 035 3844606.

L'Amministratore
Delegato
(Ambrogio Caccia Dominioni)

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 2012)

Chairman and Chief Executive Officer	Ambrogio Caccia Dominioni
Vice Chairman	Alfredo Brignoli Gianluca Bolelli (2)
Directors	Sergio Arnoldi (1) (2) (3) Gioacchino Attanzio (1) (2) (3) Caterina Caccia Dominioni (3) Guido Giuseppe Maria Corbetta (1) Michele Carlo Felice Milani Luca Poggi Gianluca Vacchi

(1) Independent Directors
(2) Member of the Internal Control Committee
(3) Members of the Compensation Committee

Manager responsible for preparing the Company's financial statements	Andrea Bramani

Board of Statutory Auditors

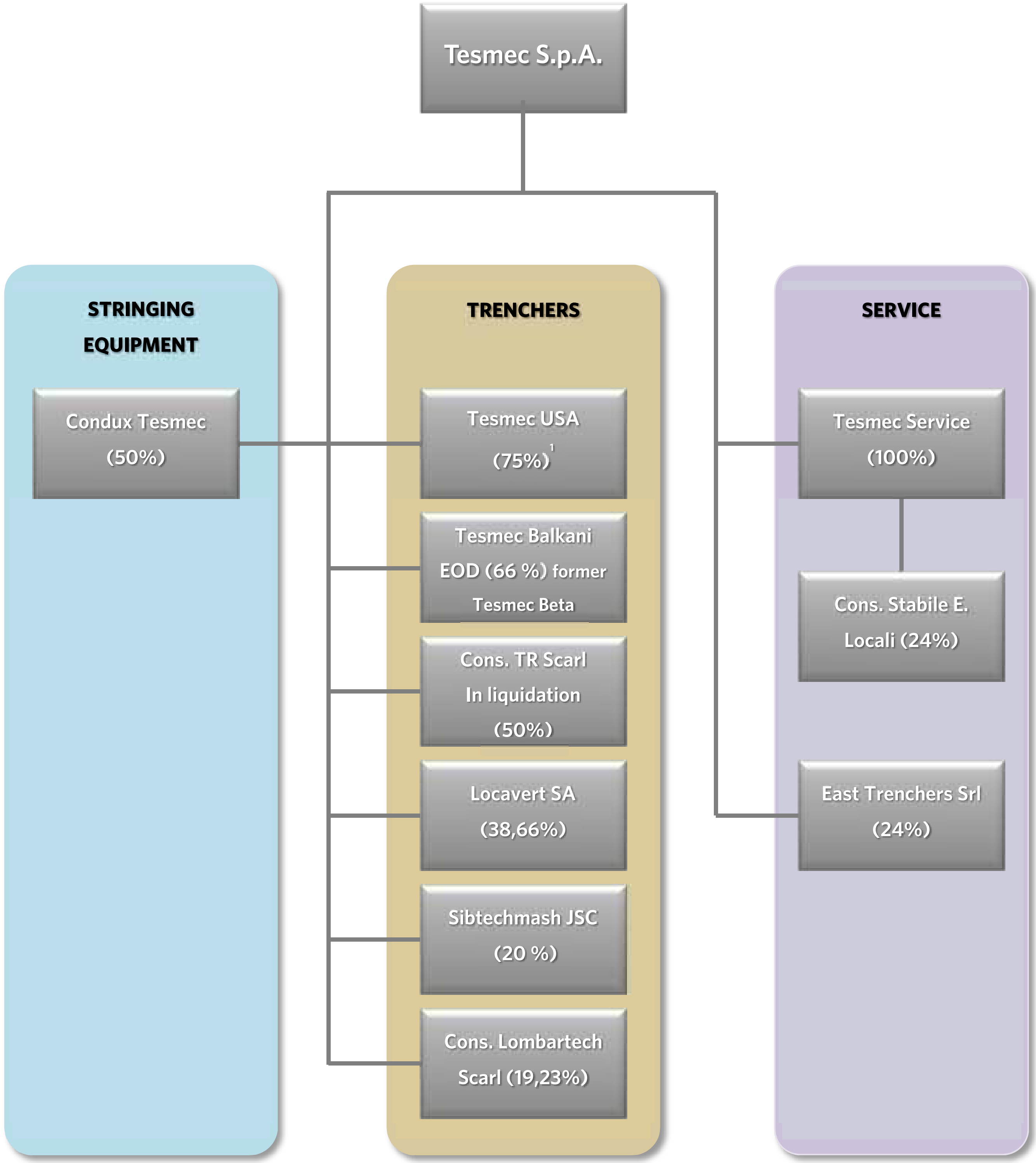
Chairman	Simone Cavalli
Statutory Auditors	Stefano Chirico Claudio Melegoni
Alternate Auditors	Attilio Marcozzi Stefania Rusconi
Independent Auditors	Reconta Ernst & Young S.p.A.

Powers of the corporate officers

Pursuant to the articles of association (Art. 21), the Chairman and Chief Executive Officer represent the company legally for the execution of the resolutions of the Board of Directors and for the exercise of the powers attributed by the Board itself.

With its resolution dated 23 February 2010, the Board of Directors appointed a Vice Chairman and conferred upon the Chairman and the Vice Chairman the powers of ordinary and extraordinary administration, except those that are strictly under the competence of the Board and those that the law reserves for the Shareholders' Meeting.

GROUP STRUCTURE



(1) The remaining 25% is held by Simest. Since Tesmec has an obligation to buy it back from Simest, from an accounting point of view the participation 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 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 no. 16.

The Group is mainly active in designing, manufacturing and selling integrated solutions for the construction and maintenance of infrastructures such as: aerial and underground networks and pipes (pipelines).

In particular, the Group operates through two product lines for the design, production and sale of:

- machines and integrated systems for stringing power lines and fibre optic cables and the stringing of railway power networks; the products for the stringing segment are manufactured at the Italian production plants of Grassobbio (Bergamo), Endine Gaiano (Bergamo) and Sirone (Lecco);
- high-powered crawler trenchers for the linear excavation of underground laying of fibre optic and energy cables and pipes (pipelines) or for earth moving works and, to a lesser extent, multi-purpose construction equipment (Gallmac). The products for the trencher segment are manufactured at the production plants located in Grassobbio (Bergamo) and Sirone (Lecco) in Italy and Alvarado (Texas) in the United States of America.

The infrastructures market for the transmission of electrical power and data and material transport (oil and oil derivatives, gas, water) is our leading market, which covers an area that is strategic for the growth and modernisation of any country.

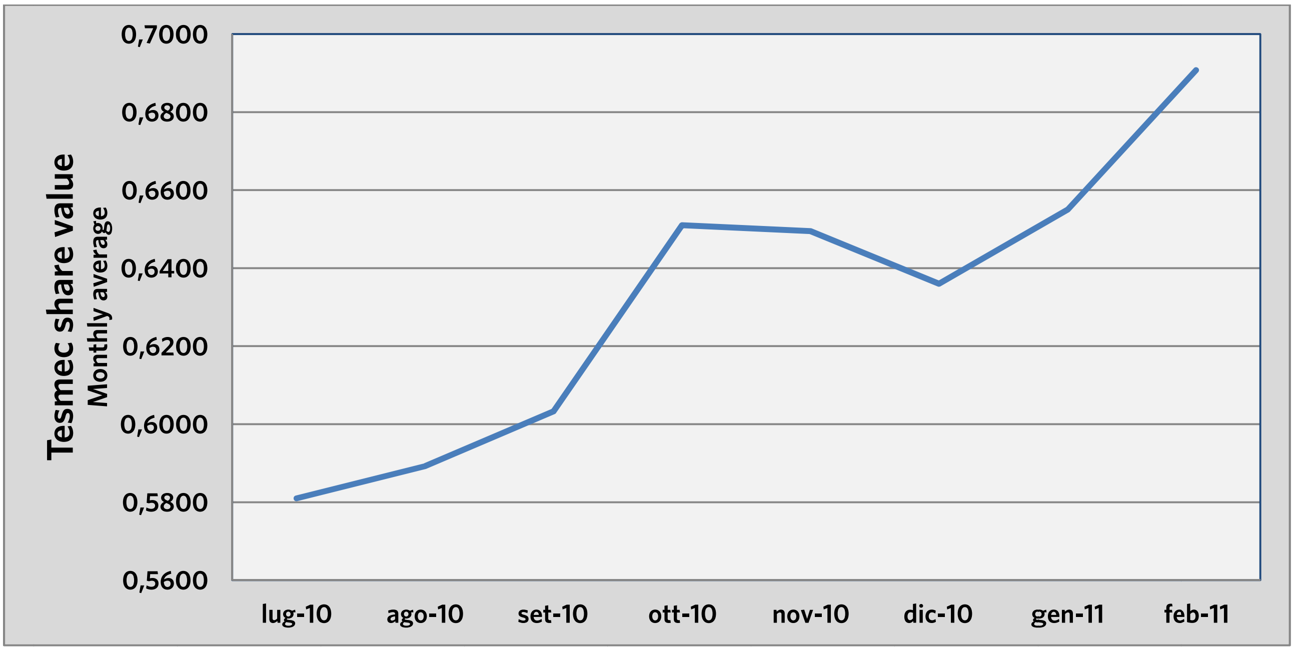
In particular, with reference to stringing equipment, the main sector in which the integrated solutions made by the Group are used, consists of construction of infrastructures for the transmission of electrical power and, in particular, construction of power lines; construction and maintenance of electricity lines on existing power lines and construction of infrastructures for the transmission of data and voice and, in particular, works involving the stringing and maintenance of optical fibre cables.

Starting form 2009 Tesmec Group has coupled the traditional machine sales activities with a new service activity. This activity comprises the provision of trenchers to the construction companies by means of long or short term renting contracts on which it is possible the inclusion of a purchase option at the end of the renting contract. These activities are organized in dedicated Companies (Tesmec service spa, East Trenchers srl) to better meet the requirement of a service business.

2. Tesmec on the Stock Exchange Market

On 1 July 2010 the listing on the Borsa Italiana's Star market was concluded successfully and the trading of the shares of the Parent Company Tesmec S.p.A. began.
A total of 58,520,000 shares were assigned to 1,348 buyers as part of the IPO. Of these shares, 16,500,000 derived from the share capital increase of Tesmec S.p.A., 36,730,000 from the sale by Selling Shareholders and 5,290,000 from the partial exercise of the over Allotment option. Following the share capital increase, Tesmec S.p.A. has a share capital of Euro 10,708,400 composed of shares with a nominal value of Euro 0.1 each. The subscription of the share capital increase by new shareholders brought Tesmec S.p.A. a net equity increase by Euro 10,377 thousand on 1 July 2010.

As at 31 December 2010, the reference price of the Tesmec share is equal to Euro 0.645 per share. Market capitalisation as at 31 December 2010 amounts to Euro 69 million (around Euro 75 million at the date of this report). In the following chart it is reported the monthly average listing price from the listing date to February 2011:



Reference price as at 31 December 2010	0.645
Reference price as at 14 March 2011	0.696
Maximum price (14 March 2011) (1)	0.712
Minimum price (1 July 2011) (1)	0.56

(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. 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 2010. In the following table it is reported a summary of the main profit and loss indicators in 2009 and in 2010 and the main financial indicators as at 31 december 2010 and as at 31 december 2009.

2009	OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures)	2010
	Key income statement data (in millions)	
86,1	Operating income	105.3
15,7	EBITDA (before non-recurring expenses)	18.6
15,7	EBITDA	15.1
12,3	Operating income (before non-recurring expenses)	13.1
12,3	Operating income	9.6
7,4	Net income of the Parent	5.2
	Tesmec S.p.A. (in millions)	
6,1	Net income	6.6
	Key financial position data (in millions)	
67,1	Net invested capital	67.4
20,9	Shareholders' equity	34.7
46,2	Net financial indebtedness	32.7
14,2	Investments in tangible and intangible fixed assets	6.9
342	Annual average employees	346

4. Group performance

Macroeconomic framework

Macro-economically, the 2010 financial period put an end to the negative economic phase that started in June 2008 and characterised all 2009.

The more or less slow recovery was common to all geographical areas, whereas, for what concerns the different activities, it showed itself in different ways:

- financial assets and real-estate sector still struggling on the geographical areas most affected by the crisis (USA and some European Nations);
- differentiated recovery-growth rates on various industrial sectors;
- projects of major works in infrastructures still being considered.

The political world of Big countries is still engaged in managing the consequences of the crisis and of the recovery, slower than expected, especially in the U.S.A. and Europe, and its effects on employment, on the financial system with its consequences in currency exchange ratios, confirming, however, the awareness with which the Governments behaved during the crisis to accelerate recovery.

As regards the more general phenomena:

a) Stock-market indexes show hard-won results arising essentially from the recovery effect with the strength-weakness of individual currencies. Changes as at 31 December 2010 compared to 2009 are set below:
   - FTSE MIB: -14.32%
   - FTSE inc all shares: +1.83%
   - Dow Jones: +9.39%
   - Nasdaq: +14.92%
   - FITSE 100 London: +7.27%
   - Frankfurt Tecdax: +1.94%

b) As far as exchange rates are concerned, 2010 reported a weakening of the Euro compared to major currencies (i.e. a devaluation of the Euro/USD exchange rate by 7,14%), stimulating commercial relations in exports:
   sound investments showed high performances (gold + 25.7%, silver + 78.8%) whereas copper, nickel and tin increased among the major commodities.
   The barrel price in USD fluctuated in the course of the year, registering a change of 12.5% in USD in 12 months, equal to 25.6% in euro.

Group management status

During 2010, the Group carried out specific actions defined within the business plan which involved, among other things, the following activities:

- **Research and Development**

  By using its strong points as leverage, the Group continued along its growth strategy focused on the applications for aerial and underground works. The strategy aimed at consolidating the leadership position in the field of technological innovation and the expansion of the range of products and technologies other than the increase in the use of the Tesmec Group systems in replacement of traditional technologies.

  The significant technological innovations carried out in the transmission of electrical power and data and the transport of materials together with increasing demand from integrated systems clients required Tesmec Group to make significant investments to develop the current product range so as to maintain its leadership position in the area of technological innovation. Indeed, Tesmec products are currently perceived as state of the art and of a high quality compared to those of competitors. This positioning is the result of the continuing commitment in the renewal and development of the product range and the attention to the quality and reliability of our products. The increasing demand for electricity in the areas under development, together with a different offering mix (for example, development of renewable energy sources) and materials, requires operators to use new integrated technological solutions in order to carry out new infrastructures in an efficient and innovative way.

- **Development of integrated supply services**

  The Group has continued to search integrated supply solutions that are able to cover the requirements expressed by clients from time to time. In particular, during the 2010 financial period, for linear excavation solutions (trencher), the Group has added an offer of integrated services with the formula of the rental with option to repurchase, the supply of teams of qualified and specialist staff for training, the operation and maintenance of machines to the traditional sale of machines, accessories and parts. Large construction companies showed a great interest in integrated services.

- **Geographical expansion**

  The need to cover the various major markets in accordance with the significant investment plans made for infrastructures for the transmission of electrical power and data and material transport, led the Group to carry on during the year a strategy based on geographical expansion oriented towards emerging countries (BRIC) and the development of new markets that had been focused on very little until now (North Africa, Eastern Europe and Saudi Arabia) while maintaining its position in traditional markets (North America and Europe).

Performance by segment

- *Stringing equipment*
  the Stringing segment that concerns the supply of equipment and solutions for the construction of power lines and for railway electrification represents as at 31 December 2010 62% of overall revenues of the Group. The stringing equipment segment shows a 46% revenues increase compared to the data reported as at 31 December 2009. The increase in revenues is attributable to the acquisition of important orders in emerging countries with an emphasis on the BRIC countries, the scene of major investments in infrastructure for the transmission of power lines where Tesmec could benefit from the construction of a new line of stringing machines on high-voltage lines.
  The result is even more remarkable when you consider that the growth of the market in North America has been lower than expected due to the persistent financial crisis that has postponed the start of the projects of expansion of the current electricity transmission network.
  Furthermore, we note the increased presence in the rail sector in which important orders were acquired especially by the Chinese Railway.
  In terms of margin, before the share of non-recurring costs related to the listing process, the segment is positioned at a level equal to 19.5% of revenues, decreasing compared to 20.6% in 2009 but still confirming a figure that is constantly positioned high in the course of time.

- *Trencher*
  the Trencher segment that concerns the supply of equipment and solutions for excavation and related services represents as at 31 December 2010 a share equal to 38% of Group consolidated revenues, down compared to the figure reported as at 31 December 2009 equal to 3%. This trend is the result of a positive effect related to the increase in revenues in the countries of the Middle East and of a negative effect related to sales on the North American market that is still impacted by an extension phase of the financial crisis that began in the second half of 2008. The negative impact of this crisis occurs at the level of the propensity to invest in capital goods in that major works in infrastructures report continuous postponement of the starting dates.
  In terms of margin, before non-recurring costs, a 14.6% decrease is reported as at 31 December 2010 compared to 15.8% as at 31 December 2009. The reduction is caused by the increased impact of fixed costs on revenues in decline.

Management performance of the main subsidiaries and associated companies

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

- Tesmec USA Inc., a company which is 75% owned by Tesmec S.p.A. and 25% by Simest S.p.A. (with an option of Tesmec to repurchase the Simest's shareholding interest), is based in Alvarado (Texas) and operates in the trencher segment. The company has been affected in 2010 by the extension of the negative economic stage of the American market where the demand for capital goods remains today at much lower levels than the second half of 2008. Revenues amounted to Euro 9.6 million.

- Tesmec Balkani EAD (former Tesmec Beta), a company that is 66% owned by Tesmec S.p.A. as at 31 December 2010 with Headquarters in Plovidiv (Bulgaria) aims to develop sales of trenchers in the Balkans where interesting projects are in place, especially in the oil & gas and civil infrastructures area. The company, which is not operational, did not produce profits during the 2010 financial period. As reported in the paragraph called "Significant events occurred after the close of the financial period", in January 2011 Tesmec S.p.A purchased from third parties the remaining share equal to 34% of Tesmec Balkani for Euro 26.692.

- Tesmec Service S.p.A., which is 100% owned by Tesmec S.p.A. and based in Costa Volpino (BG), is focused as from 2010 on the development of the service activity, primarily in support of the trencher equipment segment. During the 2010 financial period, the company has not yet started significant projects and the company's revenues amounted to Euro 0.4 million. As previously noted, the interest from customers for such integrated services has increased and should lead as from 2011 to even further consolidation of the company activities.

- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec SpA and 50% by US shareholder Condux, which is based in Mankato (USA), has been active since June 2009 in selling products for the North American stringing equipment market. The company has been consolidated using the equity method and generated revenues for a total of Euro 4.8 million during the financial period. The profits added to the Group's consolidated financial statements amount to Euro 88 thousand.

- Locavert SA, an associated company 38.63% owned by Tesmec S.p.A. and based in Bouillargues, France, leases trenchers and carries out excavation works. During the financial period, this company posted Euro 2.3 million in revenues.

- Consorzio Stabile Energie Locali Scarl, a cooperative company which is 24% owned by Tesmec Service S.p.A. and operates in the design and execution of works and services for the transport of power and data and its registered office is in Brescia. During 2010, it began operations by taking part in two calls for tenders for lighting services and telecommunications which have not been awarded yet;

- East Trenchers S.r.l.: the associated company started its operations at the end of 2010. The subject-matter of its activity will be to hire/service trencher machines with the inclusion of pre/post sales services which traditionally are coupled with this kind of activity.

- the other associated companies, Sibtecmash Jsc, Consorzio Lombartech Scarl and Consorzio TR Scarl under liquidation, are currently not operational.

5.Income statement and balance sheet situation as at 31 December 2010

Consolidated Income statement

The Group closed the financial period as at 31 December 2010 with a net income of Euro 5,243 thousand compared to a net income of Euro 7,368 thousand as at 31 December 2009. Moreover, non-recurring costs related to the listing process completed on July 1st, 2010 for a total of Euro 3,515 thousand impact significantly on the result as at 31 December 2010.
The following table shows the trend of major economic indicators of the Group as at 31 December 2010 compared to 31 December 2009.

	Financial period ended as at 31 December			
(€ in thousands)	2010	% on revenues	2009	% on revenues
Revenues from sales and services	105,280	100.0%	86,088	100.0%
Cost of raw materials and consumables	(48,678)	-46.2%	(38,543)	-44.8%
Costs for services	(20,596)	-19,6%	(16,609)	-19.3%
Costs for non reccurring services	(3.515)	-3,3%	-	0,0%
Payroll costs	(17,119)	-16.3%	(15,463)	-18.0%
Other operating (costs)/revenues, net	(3,692)	-3.5%	(2,714)	-3.2%
Depreciation and amortization	(5,517)	-5.2%	(3,416)	-4.0%
Development costs capitalised	3,399	3.2%	2,987	3.5%
Total operating costs	(95,718)	-90.9%	(73,758)	-85.7%
Operating income	9,562	9.1%	12,330	14.3%
Financial expenses	(3,396)	-3.2%	(3,132)	-3.6%
Financial income	1,749	1.7%	400	0.5%
Portion of gains/(losses) from equity investments evaluated using the equity method	83	0.1%	(22)	0.0%
Pre-tax profits	7,998	7.6%	9,576	11.1%
Income taxes	(2,784)	-2.6%	(2,198)	-2.6%
Net profit for the period	5,214	5.0%	7,378	8.6%
Non-controlling interests	(29)	0.0%	10	0.0%
Equity holders of the parent	5,243	5.0%	7,368	8.6%

Revenues increased by 22% compared to the prior financial period. We note that non-recurring expenses related to the listing process, which ended on 1 July 2010, were recorded in the income statement for a total of Euro 3,515 thousand. They were separately shown when calculating the Ebitda.

	Financial period ended as at 31 December				
(€ in thousands)	2010	% on revenues	2009	% on revenues	2010 vs. 2009
Operating income	9,562	9.1%	12,330	14.3%	(2,768)
+ Amortization/Depreciation	5,517	5.2%	3,416	4.0%	2,101
EBITDA (1)	15,079	14.3%	15,746	18.3%	-667
+ Non-recurring costs	3,515	3.3%	-	0.0%	3,515
adj EBITDA (2)	18,594	17.7%	15,746	18.3%	2,848

(1) The EBITDA is represented by the operating income gross of amortization/depreciation. The EBITDA thus defined represents a measurement used by the company's management to monitor and assess the company's operating performance. The EBITDA is not identified as an accounting element by the IFRS and thus is not to be considered as an alternative measurement for the assessment of the performance of the Group's operating income. As the composition of the EBITDA is not governed by the reference accounting standards, the criterion for determination applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.
(2) The adj EBITDA is represented by the operating income gross of amortization/depreciation and by non-recurring expenses related to the listing process, which ended in July 2010.

Excluding the impact of non-recurring costs, EBITDA is therefore increased by 18% compared to the prior period. Moreover, a major component of revenues from service activities, which are significantly higher than in 2009 as shown in the table below, contributed to the increase in revenues:

	Financial period ended at 31 December				
(€ in thousands)	2010	% on revenues	2009	% on revenues	2010 vs. 2009
Sales of products	100,107	95.1%	84,480	98.1%	15,627
Services rendered	5,173	4.9%	1,608	1.9%	3,565
Total revenues from sales and services	105,280	100.0%	86,088	100.0%	19,192

Revenues by segment

	Financial period ended at 31 December				
(€ in thousands)	2010	% on revenues	2009	% on revenues	2010 vs. 2009
Stringing equipment	65,065	61.8%	44,484	51.7%	20,581
Trencher	40,215	38.2%	41,604	48.3%	(1,389)
Total revenues	105,280	100.0%	86,088	100.0%	19,192

The performance of revenues by segment shows a 46% growth trend for the Stringing segment and a 3% decrease in the Trencher segment, which was mainly caused by the performance of revenues of the Tesmec USA subsidiary that suffered from the ongoing recession on the American market for the building segment and infrastructural works in general.
In percentage terms, revenues of the Stringing segment in 2010 were equal to 61.8% of the total compared to 51.7% in 2009.

Revenues by geographic area

	Financial period ended at 31 December					
	2010			2009		
(€ in thousands)	Stringing equipment	Trencher	Consolidated	Stringing equipment	Trencher	Consolidated
Italy	2,214	4,578	6,792	622	3,178	3,800
Europe	11,399	6,252	17,651	11,117	6,616	17,733
Middle East	2,464	17,937	20,401	4,089	13,425	17,514
Africa	3,216	7,036	10,252	3,669	6,763	10,432
North and Central America	5,148	4,400	9,548	4,565	10,061	14,626
BRIC and others	40.624	12	40.636	20.422	1.561	21.983
Total revenues	65,065	40,215	105,280	44,484	41,604	86,088

The geographic distribution of sales shows an increase in revenues of the Stringing segment in the countries of the so-called BRIC area. For the Trencher segment, growth is reported especially in the area of the Middle East whereas a reduction is confirmed in the American continent.

Operating costs

	Financial period ended at 31 December				
(€ in thousands)	2010	% on revenues	2009	% on revenues	2010 vs. 2009
Stringing equipment	56,254	86.5%	36,804	82.7%	19,450
Trencher	39,464	98.1%	36,954	88.8%	2,510
Total operating costs	95,718	90.9%	73,758	85.7%	21,960

Overall operating costs were up 30% compared to the prior period. The recording of non-recurring costs of Euro 3,515 thousand, related to the listing process, affects this figure. Net of such value, the increase in operating costs would have been equal to 25%.
The more than proportional increase with respect to revenues (+22%) is affected by the performance of the Tesmec USA subsidiary where the impact of fixed costs on revenues increased as a result of the significant reduction in sales volumes.

Non-recurring costs

The item as at 31 December 2010 represents a total cost aggregate that for the part booked to the income statement totals the amount of Euro 3,515 thousand and is only represented by the costs incurred by the company in relation to the listing process of the Parent Company that was mentioned in point 2 of this report. The following table provides an analysis by main categories:

(€ in thousands)	2010
Audit and management control	1,218
Legal	1,531
Sponsor	2,171
Media	667
Other	52
Total expenses incurred for IPO	5,639
of which share premium reserve	2,124
Total non-recurring costs	3,515

Operating profit

	Financial period ended at 31 December				
(€ in thousands)	2010	% on revenues	2009	% on revenues	2010 vs. 2009
Stringing equipment	8,811	13.5%	7,680	17.3%	1,131
Trencher	751	1.9%	4,650	11.2%	(3,899)
Total operating result	9,562	9.1%	12,330	14.3%	(2,768)

Operating Profit is equal to Euro 9,562 thousand in decline compared to 2009 due to the impact of the listing costs.Indeed excluding these costs, the operating income would be increased by 6%.

Net income

(€ in thousands)	Financial period ended at 31 December 2010	2009
Net profit	**5,214**	**7,378**
% Effect on revenues	5.0%	8.6%
Non-controlling interests	(29)	10
Net income for the period	**5,243**	**7,368**
% Effect on revenues	5.0%	8.6%

Results for the period amounted to Euro 5,243 thousand (Euro 7,368 thousand in 2009) after deducting taxes totalling Euro 2,784 thousand (Euro 2,198 thousand in 2009).
The effect of listing costs net of its tax impact would have amounted to Euro 2,434 thousand including which the net income would have increased by 4%.

Profitability ratios

Index	*Composition*	31 December 2010	2009
Return on sales (R.O.S.)*	Operating income / Net revenues	12.4%	14.3%
Return on investment (R.O.I.)*	Operating income / Invested capital	19.2%	18.4%
Return on equity (R.O.E.)	Net profit / Shareholders' equity	15.1%	35.3%
Invested capital turnover	Net revenues / Net invested capital	1.6	1.3
Working capital turnover	Net revenues / Net working capital	2.6	2.0
Debt ratio	Net financial indebtedness / Shareholders' equity	0.9	2.2

*To ease the comparison 2010 operating income has been calculated gross of the listing costs

The table above shows concisely the main trends that characterised the financial statements of the Group as at 31 December 2010 compared to 31 December 2009. Profit & Loss indicators are affected by the decreased profitability of the trencher sector due to the situation of the American market. From a financial view point there is a general improvement, both as far as the capital employed and working capital turnover ratio.
Return on investment ratio (R.O.I.) wich summarises the economic and financial trend of the Tesmec Group shows on improvement from 18,4% in 2009 up to 19,4% in 2010.
Return on equity ratio (R.O.E.) decreased mainly due to the impact of non recurring costs.

Balance sheet and financial profile

The financial position of the company as at 31 December 2010 compared to 31 December 2009 is briefly shown below.

(€ in thousands)	Financial Period ended at 31 December 2010	2009
USES		
Net working capital [(1)]	40,236	43,108
Fixed assets	26,064	24,012
Other long-term assets and liabilities	1,146	(63)
Net invested capital [(2)]	**67,446**	**67,057**
SOURCES		
Net financial indebtedness [(3)]	32,707	46,198
Shareholders' equity	34,739	20,859
Total sources of financing	**67,446**	**67,057**

[(1)] The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. The net working capital is not identified as an accounting element by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.
[(2)] The net invested capital is calculated as net working capital plus non-current assets less non-current liabilities excluding non-current financial liabilities. The net invested capital is not a recognised measure of financial performance or liquidity under IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.
[(3)] The net financial indebtedness is calculated as the amount of cash and cash equivalents, current financial assets including available–for–sale securities, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

The working capital decreased, the item relating to fixed assets and to other long-term assets and liabilities increased and the invested capital increased all in all by 1%. Among the sources of financing, the part financed with external sources (net financial indebtedness) decreased and the part financed with own funds increased (Shareholders' equity).

Working capital

	Financial Period ended at 31 December	
(€ in thousands)	2010	2009
Trade receivables	32,482	28,456
Inventories	42,220	41,966
Trade payables	(26,291)	(21,804)
Other current assets (liabilities)	(8,175)	(5,510)
Net working capital [(1)]	40,236	43,108

[(1)] The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. The net working capital is not identified as an accounting element by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.

The Working capital compared to net revenues decreased from 50% reported in 2009 to 38% in 2010. This result was affected by the trend of trade receivables that increased by 14% and by inventories that increased by 1% less than proportionally compared to the increase in revenues (+22%). Liabilities for trade payables and other current assets and liabilities increased by 26% more than proportionally to the increase of revenues due to the zeroing of deferred listing costs that were fully settled during the financial period.

Net fixed assets

	Financial Period ended at 31 December	
(€ in thousands)	2010	2009
Intangible assets	6,813	5,680
Property, plant and equipment	17,993	17,183
Equity investments in subsidiaries	1,256	1,147
Other equity investments	2	2
Fixed assets	26,064	24,012

The increase in property, plant and equipment is mainly determined by the investments carried out in Tesmec USA to increase the trencher fleet for the rental activity whereas the increase in intangible assets is related to the increase in investments in development activities in the Parent Company.

Medium to long-term assets and liabilities

	Financial Period ended at 31 December	
(€ in thousands)	2010	2009
Financial receivables and other non-current financial assets	7	1,221
Derivative financial instruments	131	-
Deferred tax assets	4,912	3,367
Employee benefit liability	(2,968)	(3,211)
Deferred tax liabilities	(936)	(1,440)
Other long-term assets and liabilities	1,146	(63)

In this item that passes from a net liability of Euro 63 thousand as at 31 December 2009 to an asset of Euro 1,146 thousand as at 31 December 2010, the following changes must be reported:

- decrease in non-current financial receivables of Euro 1,207 thousand that mainly refer to the repayments of the borrowing position claimed from the related party Reggiani Macchine;
- increase in deferred tax assets mainly due to the effect of listing costs that will be recovered for taxation in five financial periods.

Indebtedness

	31 December			
(€ in thousands)	2010	*of which with related parties and group*	2009	*of which with related parties and group*
Cash and cash equivalents	(7,767)	-	(1,443)	-
Current financial assets (1)	(404)	*(226)*	(3,373)	*(2,974)*
Current financial liabilities	20,773	-	38,649	-
Current portion of derivative financial instruments	90	-	-	-
Current financial indebtedness (2)	12,692	*(226)*	33,833	*(2,974)*
Non-current financial liabilities	19,981	-	12,153	-
Non-current portion of derivative financial instruments	34	-	212	-
Non-current financial indebtedness (2)	20,015	-	12,365	-
Net financial indebtedness pursuant to Consob Communication No. DEM/6064293/2006	32,707	*(226)*	46,198	*(2,974)*

(1) The current financial assets as at 31 December 2010 and 31 December 2009 include the market value of shares and warrants listed on the Italian Stock Exchange (Borsa Italiana), which are therefore accounted as cash and cash equivalents.

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

Indebtedness decreases from Euro 46,198 thousand as at 31 December 2009 to Euro 32,707 thousand as at 31 December 2010. This change is mainly related to proceeds from the listing process net of related costs (around Euro 7 million) and to an improvement in the management of working capital that increases less than proportionally compared to the increase in revenues.
In addition to this reduction of the overall data, we note a shift among short and medium to long term sources. Medium to long-term indebtedness represents as at 31 December 2010 59% of the total compared to 27% as at 31 December 2009.

Shareholders' equity

	Financial Period ended at 31 December	
(€ in thousands)	2010	2009
Share capital	10,708	9,058
Reserves	18,779	4,420
Profit for the period	5,243	7,368
Non-controlling interests	9	13
Shareholders' equity	34,739	20,859

The share capital amounts to Euro 10,708 thousand, fully paid in, and is comprised of 107,084,000 shares with a par value of Euro 0.1 per share.
During the 2010 financial period, there was an increase in share capital of Euro 1,650 thousand, from Euro 9,058 thousand to 10,708 thousand, as detailed in the statement of changes in Shareholders' Equity in the Notes of the current balance sheet. This increase was carried out upon the listing on 1 July of the Tesmec Group on the Regulated Market, STAR segment, managed by Borsa Italiana.
The increase in the *Share premium reserve* from Euro 2,554 thousand to Euro 10,915 thousand, is completely related to the listing of the shares of the Company on the Italian Electronic Stock Market (STAR segment) through the issue of new 16,500,000 shares of the premium value of Euro 0.6 each.
The increase in the share premium reserve was shown net of expenses incurred and related only to the Public Subscription Offer of Euro 2,070 thousand in compliance with the provisions of IAS 32 for an overall effect net of deferred tax assets of 8,361 thousand.
In the 2010 financial period, dividends of Euro 2,582 thousand were distributed.

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

	Financial period ended as at 31 December	
(€ in thousands)	Shareholders' equity	Net profit
Amounts resulting from the financial statements of Tesmec S.p.A.	32,433	6,552
Consolidation adjustments		
a) Equity investments evaluated using the equity method	90	83
b) Difference between book value and assets of consolidated equity investments	5,023	-
c) Results from equity investments	(2,059)	(1,152)
d) Translation reserve	(517)	-
e) Elimination of dividends distributed by Companies of the Group	-	-
f) Elimination of intercompany items	(240)	(240)
Net effect of consolidation adjustments	*2,297*	*(1,309)*
Amounts attributable to the Group	34,730	5,243

Investments

During 2010, the Group recorded further net investments in property, plant and equipment of Euro 2,539 thousand (Euro 9,119 thousand as at 31 December 2009) and in intangible assets of Euro 4,336 thousand (Euro 3,269 thousand as at 31 December 2009).
Investments in property, plant and equipment were carried out mainly for the factory of Sirone that was equipped with new machinery with which most of the production of the Group and the increase in the Trencher fleet to be used for rental services in Tesmec USA may be carried out internally.
Investments in intangible assets are mainly attributable to the ongoing development of new machinery and equipment for the Stringing and Trencher segment to constantly encourage the Group's offer to resolve customer operational problems. The most significant investments completed during the year include the new range of machinery for the construction of high voltage lines in response to a growing need of customers especially in the BRIC countries.

6.Regulatory framework of reference

The Group, producer and distributor of machinery and integrated systems for stringing and trencher , is subject, in the various countries where it operates, to several law and regulatory provisions, as well as national or international technical standards, applicable to companies operating in the same segment. The provisions on the protection of the environment take on particular importance.

The enactment of further regulatory provisions applicable to the Group or to its products or rather changes to the laws and regulations currently in force in areas where the Group operates, even internationally, could force the Tesmec Group to adopt stricter standards or influence its freedom of action in its areas of activity.

These factors could result in adjustment costs of production structures or of product characteristics, or even limit the operations of the Group with a subsequent negative effect on its activity and on its economic and financial situation.

Therefore, any change to the standards or regulatory criteria currently in force, as well as the occurrence of exceptional or unforeseeable circumstances, could force the Group to incur extraordinary expenses in environmental matters. These expenses could be significant and thus have adverse effects on the activity and the economic and financial situation of the Group. For more details on the subject of safety, environment and work, reference is made to the relevant paragraph.

7.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, 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 Tesmec S.p.A.
The company has implemented a mechanism for constantly monitoring these risks in order to prevent their potential negative effects and take the actions necessary to contain them.

Management and types of risks

Tesmec Group within the context of its activity is subject in a more or less sensitive way to certain types of risks that are dealt with as follows.
Tesmec Group does not hold derivatives or similar products for pure speculative purposes.

Type of risks and hedging instruments used

Exchange-rate risk

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

As in prior financial periods, most of the domestic and international commercial transactions carried out by the Group, were executed in the euro area and US dollar.
As a result, the Company believes that, although the activity is carried out in the international arena, it is not significantly conditioned by fluctuations due to the stability of such currencies. However, the depreciation of the US Dollar against the Euro could have negative effects on operating margins.

In general, the Company does not adopt specific policies to cover fluctuations in exchange rates with forward sale instruments and adjustment of the foreign currency price list. In fact, the Group pursues a strategy that involves in general US dollar purchases - US dollar sales, Euro purchases - Euro sales, which in the opinion of the management, mitigates the risk arising from fluctuations in exchange rates (the so-called natural hedging).

In some specific cases such as:

- marketing in Middle-East Countries trenchers produced in Italy;
- marketing in the USA stringing machines produced in Italy, where purchases are in euro, and sales in US dollar;

typically, the Group adopts forward sale instruments to fix the exchange rate when the order is made.
Despite the adoption of the above strategies aimed at reducing the risks arising from fluctuation of exchange rates, the Group cannot exclude that future changes thereof may affect the results of the Group. Fluctuations in exchange rates could also significantly affect the comparability of the results of each financial period.

Tesmec S.p.A. concluded during 2010 five forward cover contracts of the Euro/USD exchange rate (flexible/swap) . All transactions were concluded by 31 December 2010.

Credit risk

For the Group, the credit risk is closely linked to the marketing 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 a high credit risk in that it has been operating for years in markets where payment on delivery or by letter of credit of a prime international bank are usually used as payment methods. For customers located in the European region, the Group mainly uses factoring without recourse. Doubtful accounts represent very well the extent of the overall credit risk.

Price risk

In general, the price risk is linked to the fluctuation of prices for raw materials.
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 be absolutely sure on the supply volumes, in order not to affect the warehouse stock.
Actually, this risk seems distant for two fundamental reasons:

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

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

Liquidity/cash-flow variation risks

The management of financial requirements and related risks (mainly interest-rate risks, liquidity and exchange-rate risks) is carried out by the Group on the basis of guidelines defined by the Group General Management and approved by the Chief Executive Officer of the Holding 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:

- interest bearing financial payables with multiyear redemption plan, to cover the investments in fixed assets and to finance expenses related to several development projects.
- short-term financial payables, advances on export, transfers of trade receivables, to finance the working capital.

The average cost of indebtedness tends to be benchmarked to the trend of the three-month Euribor rates depending on the type of loan contract. Hedging transactions of the interest rate were started especially in relation to floating interest-rate bearing financial payables. Existing loans contemplate the observance of financial covenants, commented later.
It should be noted that in 2010 there has been a significant shift among short and medium to long term sources. Medium to long-term indebtedness represents as at 31 December 2010 61% of the total compared to 27% as at 31 December 2009.

Following what was described in the paragraph: "Significant events occurred after the close of the financial period" on 4 March 2011, an agreement for a syndicated loan was closed successfully totalling Euro 21 million, organised by BNL-BNP PARIBAS Group. The aim of the signed contract is to both refinance part of the existing debt (in particular, with reference to the debt existing in the Tesmec USA Inc. subsidiary) and raise capital in view of new investments as well as to support the development and growth of the Group.

Risks related to transactions with suppliers

The Tesmec Group has carried out a supply policy aimed at diversifying the suppliers of components that are characterised by purchased volumes or by high value added. However, the termination for any reason of these supply relations could imply for the Group supply problems of such raw materials, semi-finished and finished goods as for quantity and time suitable for ensuring the continuity of production, or the provisioning from other suppliers could be carried out against a major economic outlay.

For the supply of some components, the Group uses high-end suppliers for which it is not a strategic customer and, therefore, purchases the products from the latter on the basis of the offers and price lists offered. Such circumstances could therefore have negative consequences on the economic and financial situation of Tesmec S.p.A. and of the Tesmec Group.

8.Training Human Resources and Industrial relations

The success of the Tesmec Group is deeply determined by the persons who work in it. For this reason Tesmec Group has dedicated a constant level of attention to the motivation of existing resources and has planned recruitments and advancements for business growth and expansion by making sure to achieve a good integration process with the existing resources.
Contributors come from a wide variety of backgrounds in line with the variety of activities that the Tesmec Group develops both nationally and internationally operating in an environment strongly oriented to innovation and change.
The significant figure of the position covering index with internal growth - which in 2010 amounted to 90% - is one of the most significant factors. This increase is the result of a specific business choice aimed at enhancing at best internal skills, by strengthening the organisational structure with targeted growth careers at any level (workers, employees, managers).
Always in terms of labour mobility, 2010 reported a drop in turnover (16%) compared to 2009 (17%) within absolutely low values. In parallel, there is a reduction in the last three years of the average length of service of employees and managers. This is the result of recruitment of personnel on all business areas of newly-qualified and newly graduated personnel.

Resource training and development

In percentage terms, investments in training and development amounted to 0.1 % of turnover.
The training activity is broken down as follows:

- technical updating (in typical technologies relevant to the Project), usually required by the complexity that normally characterises the Projects also from a technological viewpoint;
- management training (planning and control techniques) directed to persons in charge of the Project and its parts;
- training directed to the Project Manager and/or to special persons in specific management and regulatory fields in relation to the type and environment of the Project (e.g. regulations of international trade, project financing, accident prevention at site, ...);
- cross-functional role training with a special attention to the development of teamwork practice by strengthening the values of cooperation and excellence directed to all the operators engaged in Projects;
- negotiation skill and non-hierarchical leadership training (based on negotiation skills), directed to the persons in charge of Projects and of major Sub-Projects and to the persons in charge of the lines that supply resources to Projects (in case of a matrix organisation);
- activities strictly related to the specific Project: classroom moments aimed at briefing on the project and the motivation of human resources (particularly important is the "kick off" at the start of the project and the briefing at the end of key stages and during particular situations of crisis or change in objectives);

Personnel

The average workforce employed by the Group in 2010 reports the following changes compared to 2009:

	Financial period ended as at 31 December			
(average no. of employees)	2010	2009	2010 vs. 2009	%
Tesmec SpA	290	269	21	7.8%
Tesmec USA, Inc.	56	73	(17)	-23.3%
Total	346	342	4	1.2%

The increase in personnel occurred mainly in the Parent Company and concerned the range of employees and middle management. This phenomenon is due to the entrance of persons with a high level of specialisation in the technical and project management area required to support the growth process of the Group in 2010. For the Tesmec USA Inc. subsidiary, the reduction of the average personnel in 2010 is due to the personnel reduction carried out during 2009 that showed its full effect for the first time in 2010.
The Tesmec Group has a young management with an average age of the personnel in all segments of 40.5 years in 2010 (42.2 in 2009).

Personnel costs

The remuneration trends remained almost constant with an increasing average cost per employee due to the entrance of top and middle managers in conjunction with the restructuring process of the company that was required by the listing process.
During the year, Euro 450 thousand relating to restructuring costs were allocated.

Industrial relations

Industrial relations are managed centrally but are focused on the different needs of the territories in which the Group operates.
The constant dialogue with trade-union organisations has allowed to conclude a significant reorganisation agreement of the premises of Sirone (Lecco).
The agreement envisaged the adoption of a plurality of instruments, including the activation of the ordinary redundancy fund in rotation starting from April 2009 through December 2009 for about 15 employees including approximately 11 workers (totalling 18,700 hours). Later on, an agreement dated 12 January 2010 activated the special redundancy fund for at least a maximum number of 13 zero-hour workers as from 1 February 2010 until 31 January 2011 (totalling 23,580 hours).
Within the industrial relations, we note that after a few months of strenuous negotiations in December 2010, a supplementary agreement assumption was signed with the RSU for the premises of Grassobbio - forerunner for all the other premises of the Group - which takes into account new and ambitious objectives related to business performance for the next three years, of an assessment indicator of the professional service, as well as the adoption of plurality of instruments for protecting the purchasing power of its own collaborators (forms of privileged incentive, forms of payment as shopping vouchers).

Health, safety and environment

The Tesmec Group 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 involvement of all employees, increased awareness and the dissemination of the “safety culture” are considered decisive aspects for the achievement of the objectives of protection of the workers. Training is considered an important instrument and it is planned according to a precise timetable.

Moreover, the search for the best solutions to eliminate or reduce risks is shared with the business functions that must implement these specific measures to ensure their application.

During 2010, tools for monitoring the significant indicators of occupational safety and health were implemented with statistical trend analyses, by showing a positive trend in the reduction in the incidence of all indexes related to accidents (-50% compared to 2009, -57% compared to 2008).

A precise system of proxies on environment and safety was defined and assigned to the operating managers of the locations, who were informed through specific courses relating to the Italian Legislative Decree 81/2008 for ASPPs or for managers.
In doing so, a greater involvement was achieved by the persons appointed to work organisation, with a priority consideration of the aspects of environmental protection and occupational safety and health.
Moreover, the prevention and protection service and the management and control service of the technical and regulatory aspects concerning the protection of the environment have been strengthened through the involvement of specialists.

There remains a great deal of attention in assessing beforehand all possible sources of risk to the health and safety of workers, also by monitoring at regular intervals inside the working environments, whose results show the compliance with regulatory standards.

With regard to issues relating to social and local responsibility, the company is committed to maintaining a high level of safety and environmental protection.

9.Related party transactions

The Tesmec Group maintains related party transactions especially with respect to entities controlled by persons who in Tesmec S.p.A. mainly carry out management functions for what concerns real-estate transactions (rental of premises serving as means to production) and to a lesser extent for commercial activities.
Relations with subsidiary companies are governed at market terms and conditions, taking account of services rendered.

Significant related-party transactions

During the 2010 financial period, no significant related-party transactions were carried out. Reference should be made to the paragraph "Significant events occurred after the close of the financial period" for the description of the related-party transaction concluded on 31 January between Tesmec and Dream Immobiliare S.r.l. For the supplemental information requested by Consob Communication No. 6064293 of 28 July 2006 on related-party transactions, refer to note 37 of the consolidated financial statements of the Tesmec Group and to note 35 of the financial statements of the Parent Company.

10.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 level.

Income statement

The income statement of the Parent Company in 2010 compared with that of the prior financial period is summarised below:

	Financial period ended as at 31 December			
(€ in thousands)	2010	% on revenues	2009	% on revenues
Revenues from sales and services	**102,121**	**100.0%**	**79,515**	**100.0%**
Cost of raw materials and consumables	(48,479)	-47.5%	(37,167)	-46.7%
Costs for services	(19,554)	-19,1%	(15,213)	-19.1%
Costs for non recurrent services	(3,443)	-3,4%	-	0%
Payroll costs	(14,359)	-14.1%	(12,532)	-15.8%
Other operating (costs)/revenues, net	(3,826)	-3.7%	(3,496)	-4.4%
Depreciation and amortization	(4,420)	-4.3%	(2,787)	-3.5%
Development costs capitalised	3,050	3.0%	2,789	3.5%
Total operating costs	**(91,031)**	**-89.1%**	**(68,406)**	**-86.0%**
Operating income	**11,090**	**10.9%**	**11,109**	**14.0%**
Financial expenses	(3,024)	-3.0%	(2,650)	-3.3%
Financial income	1,753	1.7%	449	0.6%
Pre-tax profits	**9,819**	**9.6%**	**8,908**	**11.2%**
Income taxes	(3,267)	-3.2%	(2,785)	-3.5%
Net profit for the period	**6,552**	**6.4%**	**6,123**	**7.7%**

Revenues increased by 28% compared to the prior financial period. Non-recurring expenses related to the listing process occurred on 1 July 2010 were recorded for a total of Euro 3.4 million. They were separately shown when calculating the EBITDA.

	Financial period ended as at 31 December				
(€ in thousands)	2010	% on revenues	2009	% on revenues	2010 vs. 2009
Operating income	11,091	10.9%	11,109	14.0%	(18)
+ Amortization/Depreciation	4,420	4.3%	2,787	3.5%	1,633
EBITDA (1)	15,511	15.2%	13,896	17.5%	1,615
+ Non-recurring costs	3,443	3.4%	-	0.0%	3,443
adj EBITDA (2)	18,954	18.6%	13,896	17.5%	5,058

(1) The EBITDA is represented by the operating income gross of amortization/depreciation. The EBITDA thus defined represents a measurement used by the company's management to monitor and assess the company's operating performance. The EBITDA is not identified as an accounting element by the IFRS and thus is not to be considered as an alternative measurement for the assessment of the performance of the Group's operating income. As the composition of the EBITDA is not governed by the reference accounting standards, the criterion for determination applied by the Group may not be in line with the criterion adopted by others and is therefore not comparable.
(2) The adj EBITDA is represented by the operating income gross of amortization/depreciation and by non-recurring expenses related to the listing process, which ended in July 2010.

Excluding the impact of non-recurring costs, Ebitda is therefore increased by 31% compared to the prior period and is also improved in terms of percentage on revenues from 17.5% in 2009 to 18.6% in 2010.
Moreover, a major component of revenues from service activities, which more than tripled compared to 2009 contributed to the increase in revenues.

Operating profit

Operating Profit equal to Euro 11,091 thousand in 2010, remains at the same levels of 2009 in absolute terms even if the costs borne for the listing process totalling Euro 3,442 thousand were paid during the year. Excluding these costs, the operating income increased by 31%.

Net income

Results for the period amounted to Euro 6,552 thousand (Euro 6,123 thousand in 2009) after deducting taxes totalling Euro 3,267 thousand (Euro 2,785 thousand in 2009). The increased tax rate compared to 2009 is mainly due to a minor use of the benefits relating to the Tremonti law.

Balance sheet and financial profile

The financial position of the Company as at 31 December 2010 compared to 31 December 2009 is briefly shown below.

	31 December	
(€ in thousands)	2010	2009
USES		
Net working capital (1)	27,122	30,971
Fixed assets	31,078	20,894
Other long-term assets and liabilities	370	(347)
Net invested capital (2)	58,570	51,518
SOURCES		
Net financial indebtedness (3)	26,137	33,067
Shareholders' equity	32,433	18,451
Total sources of financing	58,570	51,518

(1) The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. The net working capital is not identified as an accounting element by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.

(2) The net invested capital is calculated as net working capital plus non-current assets less non-current liabilities excluding non-current financial liabilities. The net invested capital is not a recognised measure of financial performance or liquidity under IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.
(3) The net financial indebtedness is calculated as the amount of cash and cash equivalents, current financial assets including available-for-sale securities, non-current financial liabilities, fair value of hedging instruments and other non-current financial assets.

The working capital decreased and the item relating to fixed assets increased.

Working capital

	31 December	
(€ in thousands)	2010	2009
Trade receivables	32,296	26,527
Inventories	28,047	25,141
Trade payables	(25,026)	(17,751)
Other current assets (liabilities)	(8,195)	(2,946)
Net working capital (1)	**27,122**	**30,971**

(1) The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. The net working capital is not identified as an accounting element by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.

The Working capital compared to net revenues decreased from 39% reported in 2009 to 27% in 2010. This result was affected by the trend of trade receivables that increased by 26% and by inventories that increased by 9% less than proportionally compared to sales. Liabilities for trade payables and other current assets and liabilities increased by 189% due to an approach policy of the supplier payment terms compared to customer collection and, among current assets, to the zeroing of deferred listing costs that were fully borne during the financial period.

Net fixed assets

	31 December	
(€ in thousands)	2010	2009
Intangible assets	6,122	5,079
Property, plant and equipment	9,460	10,219
Equity investments in subsidiaries	14,336	4,443
Equity investments in associates	1,158	1,151
Other equity investments	2	2
Fixed assets	**31,078**	**20,894**

The increase in fixed assets is mainly determined by TESMEC USA’s share capital increase amounting to USD 14,166 (Euro 9,976 thousand) that occurred in January. This increase was subscribed with the participation of Simest with a 37% share. The existence of a repurchase option of the shares in 2017 by Tesmec entailed by the Company the entry of 100% of the capital increase on the equity value and the recording of the contribution paid by Simest as medium to long-term debt;
The increase in property, plant and equipment is due to the increase of the Developmnet projects with multi-year revenue generation related to reference market segments (energy, telecommunications, etc.) that are affected by a strong technical development.
The decrease in property, plant and equipment is due to lower investments in the company's fleet of trenchers compared to 2009 and to the increase in depreciations related to it.

Indebtedness

(€ in thousands)	31 December 2010	of which with related parties and group	2009	of which with related parties and group
Cash and cash equivalents	(7,429)	-	(1,354)	-
Current financial assets [(1)]	(563)	*(384)*	(6,768)	*(6,445)*
Current financial liabilities	14,336	*2,208*	29,223	-
Current portion of derivative financial instruments	90	-	-	-
Current financial indebtedness [(2)]	6,434	*1,824*	21,101	*(6,445)*
Non-current financial liabilities	19,669	-	11,754	-
Non-current portion of derivative financial instruments	34	-	212	-
Non-current financial indebtedness [(2)]	19,703	-	11,966	-
Net financial indebtedness pursuant to Consob Communication No. DEM/6064293/2006	26,137	*1,824*	33,067	*(6,445)*

(1) The current financial assets as at 31 December 2010 and 31 December 2009 include the market value of shares and warrants listed on the Italian Stock Exchange (Borsa Italiana), which are therefore accounted as cash and cash equivalents.

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

Indebtedness decreases from Euro 33,067 thousand as at 31 December 2009 to Euro 26,137 thousand as at 31 December 2010. This change, despite Tesmec USA Inc's share capital increase, is mainly related to the net income collected from the listing process (around Euro 7 million) and to an improvement in the management of working capital.
In addition to this reduction on the overall data, we note a shift among short and medium to long term sources. Medium to long-term indebtedness represents as at 31 December 2010 75% of the total compared to 36% as at 31 December 2009.

As far as the current financial assets is concerned, the balance of Euro 384 thousand is in respect of a financial receivables towards the controlled Company Tesmec Balkani EOD (former Tesmec Beta) for an amount of Euro 177 thousand and of a deposit related to the rent contract of the Endine Gaiano facility toward the related party Dream Immobiliare for an amount of Euro 205 thousand. Current financial liabilities refer to a liability of the Parent Company towards the controlled Company Tesmec USA Inc which will be paid in short term.

Shareholders' equity

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

11.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 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., with additions and adjustments resulting from the characteristics of the Group.
The "Report on corporate governance and ownership structures" contains a general description of the corporate governance system adopted by the Group and shows the information on ownership structure and compliance to the self-regulatory code of conduct, including the main governance practices applied and the characteristics of the system of risk management and internal audit in relation to the process of financial reporting. The aforesaid Report is enclosed with the financial statements and subject to the same advertising terms provided for the financial statements, and it is available on the following website www.tesmec.com.

For the information relating to corporate offices covered by the directors, we make reference to what reported in the Corporate Governance Manual. For the Board of the Statutory Auditors the complete information of the corporate offices is published by CONSOB, on the relevant interned address pursuant to art. 144 quinquiesdecies of the "Regolamento Emittenti".

12.Places where the company operates

The places in which Tesmec spa carries on its activity are listed below:
- Milan (Milano): Piazza Sant'Ambrogio 16 (Registered office)
- Grassobbio (Bergamo): Via Zanica 17/O (administrative offices and factory)
- Endine Gaiano (Bergamo): Via Pertegalli 2 (factory)
- Sirone (Lecco): Via Provinciale 26/28 (factory)

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

Significant events occurred after the close of the financial period are indicated below:

- on 18 January 2011, Tesmec S.p.A. purchased for Euro 26.692 the share held by third parties in the Tesmec Beta AD company, becoming the sole shareholder. On the same day, following the Shareholders' Meeting regularly convened, the company changed its name in Tesmec Balkani EOD.
- on 31 January 2011 Tesmec dissolved the previous contract for the rental of the property of Grassobbio with Italease Gestioni spa and signed with Dream Immobiliare S.r.l. (related party) the new contract with a period of

validity until 31 January 2025. The renewal of this contract implied for the Company an immediate 12% cost saving. In connection with the Lease contract, Tesmec signed with Dream Immobiliare an option contract for the purchase of the Leasing contract (the Option Contract assigns Tesmec the right to take over the Lease contract against an initial consideration already paid of Euro 2,700 thousand. This value may be increased according to the period within which the Company will exercise the option valid until 31 December 2016.

- Even if the operation is not legally qualifiable as acquisition, in view of the fact that such Lease contract belongs to the case provided by IAS 17, it will be represented as a leasing in the financial statements, as from the 2011 financial period, and therefore it will contemplate the registration of the value of the industrial complex - for the part of its area covered by the Company and subject-matter of the said Lease contract - in the consolidated and separate financial statements of Tesmec based on the present value of future payments due (equal to Euro 22.5 million), with the corresponding entry of its financial debt. This recording will improve the EBITDA (as defined above) by around Euro 2 millions and have a positive effect on the net income of around Euro 200 thousand.

- on 4 March 2011, an agreement for a syndicated loan was closed successfully totalling Euro 21 million, organised by BNL-BNP PARIBAS Group, as arranger and lender with the participation of Popolare di Milano S.c.a.r.l., Intesa Sanpaolo S.p.A., Unicredit S.p.A., GE Capital Interbanca S.p.A. and Banca Popolare di Vicenza S.c.p.a. as lenders. The aim of the signed contract is to both refinance part of the existing debt (in particular, with reference to the debt existing in the Tesmec USA Inc. subsidiary) and raise capital in view of new investments as well as to support the development and growth of the Group.

- on 7 March 2011 a joint-venture contract was signed with TME, already exclusive concessionaire - for a few years - of the trenchers of the Tesmec Group on the market of Qatar.
- The deal was managed by the creation of a NewCo which was then called Tesmec Peninsula which will be 49% held by Tesmec S.p.A. and 51% by the local shareholder. The joint-venture was created in order to have a direct presence on a particularly strategic market such as the Middle-East market, and will focus on the marketing activities of the trenchers of the Tesmec Group in the Arabic peninsula – with the exception of Qatar that will be directly followed by the TME partner – in addition to the activity of acquisition of new service contracts related to the excavation works in all the Arabic peninsula.

14.Business outlook

The first three months of the current financial year show an increase in revenues and margins of the trencher segment also supported by a gradual return expectation of the activities for the American subsidiary and growth reinforcement for the stringing segment.
These expectations for 2011 are now confirmed also by the start of important projects in the fields of telecommunications, oil, civil infrastructures in the areas of the Middle East, Africa and Australia.
These trends include the initiatives that the Group is carrying out in order to increase the direct monitoring of these highly-potential areas with the opening of branches on the spot in partnership with local partners.
The current policy framework affecting the area of the Middle East and North Africa (MENA), which represents one of the most important areas for the development of the growth trends of the Group may, however, extend the execution time of the company development plan.

15.Other information

Management and co-ordination activities

Tesmec S.p.A. is controlled pursuant to Article 93 of the Consolidated Law on Finance by TTC S.r.l., holding company, whose share capital is indirectly held by Unione Fiduciaria S.p.A.
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 co-ordination activities towards the subsidiaries.

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

Tesmec S.p.A. carries out management and co-ordination activities, pursuant to Articles 2497 et seq. Of the Italian Civil Code, towards Tesmec USA Inc, Tesmec Balkani EOD (former Tesmec Beta) and Tesmec Service S.p.A.; this management and co-ordination activity consists in the preparation of directives, procedures and guidelines of the Group.

Treasury shares and shares of parent companies

The company has not purchased or sold during the financial period, directly or through a third party or a trust company, treasury shares or shares of controlling parent companies.

Equity investments held by directors and statutory auditors

Pursuant to the 11971/99 Consob regulation, 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

Name	Participation	Role	Number of shares held at July 1st 2010 (listing date) financial period	Number of shares purchased	Number of shares sold	Number of shares held at the end of the 2010 financial period
Alfredo Brignoli	Direct	Vice President	-	50,000	-	50,000
Gianluca Vacchi	Indirect (*)	Board member	7,973,600	-	-	7,973,600
Michele Carlo Felice Milani	Direct	Board member	-	60,000	-	60,000

(*) Shares are held by 3T finanziaria S.p.A. Italian company controlled by Gianluca Vacchi by meand of the Italian Company First Investment S.p.A.

Italian Legislative Decree 231/01

With the resolution of the Board of Directors of 23 February 2010, the Company adopted a new 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 and tailored on the specific needs determined by the coming into force of Italian Legislative Decree no. 231/2001. This new model is updated with the latest relevant law regulations.

The Supervisory Body consists of Tricomi, Lorenzo G. Pascali, as Chairman of the Body itself and Stefano Chirico, statutory auditor of the Company.

The adoption of the Model is a fundamental requirement for the listing at the STAR segment of Borsa Italiana.

During the second half of 2010, the Model has been updated both according to the company changes and to take into account what resulted from experience. This update was approved by the Board of Directors on 11 November 2010.

Italian Legislative Decree No. 196/2003 -The Privacy Act

Pursuant to Italian Legislative Decree no. 196 of 30 June 2003 "Code regarding the protection of personal data" the company proceeded to reassess and adjust its security systems in light of the standards required by the relevant legislation. Within the timeframe set by the law, Tesmec prepared and updated the Programme Document on Security in which the measures protecting the processing of personal data and the operating structure in charge of processing and managing this data are described.

The security measures adopted by the company will be periodically updated by 31 March each year, in relation to progress in science and technology or to the development of its own organisation, so as to ensure data safety and relevant processing.

PROPOSAL OF RESOLUTION

Dear Shareholders,

If you agree with the Directors, we invite you to pass the following resolution:

" The Ordinary Shareholders' Meeting of Tesmec S.p.A.,

- having taken note of the Report of the Board of Statutory Auditors and of the independent auditors, Reconta Ernst & Young S.p.A.;
- having examined the draft financial statements as at 31 December 2010 of Tesmec S.p.A. that ended with a profit of 6.551.673,53 Euro;
- having examined the consolidated financial statements as at 31 December 2010 of Tesmec S.p.A. that ended with a profit of 5.243 thousand Euro;

decides:

a) to approve the report of the Board of Directors on the Group status and on management performance;

b) to approve the separate financial statements of Tesmec S.p.A. as at 31 December 2010, consisting of the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and relevant notes to the financial statements, as well as the principles followed in preparing them and relevant enclosures, as presented by the Board of Directors, as a whole and in each single entry;

c) to approve the allocation of the net income of Tesmec S.p.A. as at 31 December 2010, equal to Euro 6.551.673,53 as set below:

    Euro 327.583,68 to legal reserve;

    Euro 3.225. 737,85 to extra ordinary reserve;

    Euro 2.998.352 to dividends equal to Euro 0,028 by each share.

d) The date for the dividend will be 23 May 2011, with payment dating back to 26 May 2011;

e) to grant all powers to the Chairman and Chief Executive Officer, so that, also via proxies and with the observance of the terms and conditions of the law, he severally carries out this resolution, as well as makes formal additions, amendments and cancellations, if necessary, required by competent authorities in order to enter this resolution in the register of companies."

Milan, 14 March 2011 The Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

(€ in thousands)	Notes	31 December 2010	2009
NON–CURRENT ASSETS			
Intangible assets	5	6,813	5,680
Property, plant and equipment	6	17,993	17,183
Equity investments evaluated using the equity method	7	1,256	1,147
Other equity investments	8	2	2
Financial receivables and other non-current financial assets	9	7	1,221
of which with subsidiaries, related parties and joint ventures:		-	*1,211*
Derivative financial instruments	19	131	-
Deferred tax assets	26	4,912	3,367
TOTAL NON–CURRENT ASSETS		31,114	28,600
CURRENT ASSETS			
Inventories	10	42,220	41,966
Trade receivables	11	32,482	28,456
of which with subsidiaries, related parties and joint ventures:		*2,979*	*3,045*
Tax receivables	12	435	1,075
Available-for-sale securities	13	101	114
Financial receivables and other current financial assets	14	303	3,259
of which with subsidiaries, related parties and joint ventures:		*226*	*2,974*
Other current assets	15	1,542	3,343
of which with subsidiaries, related parties and joint ventures:		*427*	-
Cash and cash equivalents	16	7,767	1,443
TOTAL CURRENT ASSETS		84,850	79,656
TOTAL ASSETS		115,964	108,256
SHAREHOLDERS' EQUITY			
EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
Share capital	17	10,708	9,058
Reserves / (deficit)	17	18,779	4,420
Net income (loss) for the period	17	5,243	7,368
TOTAL EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS		34,730	20,846
NON-CONTROLLING INTERESTS			
Minority interest in capital and reserves / (deficit)	7	38	3
Net income / (loss) for the period attributable to minority interests	7	(29)	10
TOTAL NON-CONTROLLING INTERESTS		9	13
TOTAL SHAREHOLDERS' EQUITY		34,739	20,859
NON–CURRENT LIABILITIES			
Interest bearing financial payables	18	19,981	12,153
Derivative financial instruments	19	34	212
Employee benefit liability	20	2,968	3,211
Deferred tax liabilities	26	936	1,440
TOTAL NON–CURRENT LIABILITIES		23,919	17,016
CURRENT LIABILITIES			
Interest bearing financial payables (current portion)	21	20,773	38,649
Derivative financial instruments	19	90	-
Trade payables	22	26,291	21,804
of which with subsidiaries, related parties and joint ventures:		*84*	*85*
Advances from customers		2,105	4,777
Income taxes payables	23	3,937	1,716
Provisions for risks and charges	24	836	751
Other current liabilities	25	3,274	2,684
TOTAL CURRENT LIABILITIES		57,306	70,381
TOTAL LIABILITIES		81,225	87,397
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		115,964	108,256

Consolidated Income statement

(€ in thousands)	Notes	Financial period ended as at 31 December 2010	2009
Revenues from sales and services	27	105,280	86,088
of which with subsidiaries, related parties and joint ventures:		*4,345*	*3,334*
Cost of raw materials and consumables	28	(48,678)	(38,543)
of which with subsidiaries, related parties and joint ventures:		*(1)*	-
Recurring costs for services	29	(20,596)	(16,609)
of which with subsidiaries, related parties and joint ventures:		*(59)*	*(432)*
Non-recurring costs for services	29	(3,515)	-
Payroll costs	30	(17,119)	(15,463)
Other operating (costs)/revenues, net	31	(3,692)	(2,714)
of which with subsidiaries, related parties and joint ventures:		*(1,143)*	*(762)*
Depreciation and amortisation	32	(5,517)	(3,416)
Development costs capitalised	33	3,399	2,987
Total operating costs		(95,718)	(73,758)
Operating income		9,562	12,330
Financial expenses	34	(3,396)	(3,132)
of which with subsidiaries, related parties and joint ventures:		-	-
Financial income	35	1,749	400
of which with subsidiaries, related parties and joint ventures:		*39*	*179*
Portion of gains/(losses) from equity investments evaluated using the equity method		83	(22)
Pre-tax profits		7,998	9,576
Income taxes	26	(2,784)	(2,198)
Net profit for the period		5,214	7,378
Non-controlling interests		(29)	10
Equity holders of the parent		5,243	7,368
Basic and diluted earnings per share		0.04896	0.08134

Consolidated statement of comprehensive income

(€ in thousands)	Notes	Financial period ended as at 31 December 2010	2009
NET PROFIT FOR THE PERIOD		5,214	7,378
Other components of comprehensive income:			
Exchange differences on translation of foreign operations	17	1,381	(230)
Total other income/(losses) net of taxation		1,381	(230)
Total comprehensive income (loss) net of taxation		6,595	7,148
Attributable to:			
Equity holders of the parent		6,624	7,138
Non-controlling interests		(29)	10

Statement of consolidated cash flows

		Financial period ended as at 31 December	
(€ in thousands)	Notes	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		5,214	7,378
Adjustments to reconcile net income for the period to the cash flows generated by (used in) operating activities:			
Depreciation and amortisation	32	5,517	3,416
Unrealised exchange gains on Simest operation		795	-
Provisions for employee benefits	20	168	104
Provisions for risks and charges / inventory obsolescence / doubtful accounts		2,029	712
Employee benefit payments	20	(411)	(237)
Payments of provisions for risks and charges		(375)	(182)
Net change in deferred tax assets and liabilities	26	(1,991)	1,431
Change in fair value of financial instruments	19	(219)	11
Change in current assets and liabilities:			
Trade receivables	11	(7,934)	(2,658)
Inventories	10	815	2,758
Trade payables	22	3,908	(5,399)
Other current assets and liabilities		5,183	(212)
NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)		12,699	7,122
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditures in property, plant and equipment	6	(3,548)	(10,946)
Investments in intangible assets	5	(4,358)	(3,269)
Investments /(disposal) of financial assets		4,081	(1,400)
Proceeds from sale of property, plant and equipment and intangible assets	5-6	1,031	1,827
NET CASH FLOW (USED IN) INVESTING ACTIVITIES (B)		(2,794)	(13.788)
NET CASH FLOW FROM FINANCING ACTIVITIES			
Long-term loans received	18	15,952	7,956
Repayment of long-term loans	18	(8,118)	(2,076)
Net change in short-term financial debt	18	(18,700)	984
Other changes		(144)	-
Dividend distribution	17	(2,582)	(1,993)
Capital injection for share capital increase	17	10,011	-
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		(3,581)	4,871
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		6,324	(1,795)
EFFECT OF EXCHANGE-RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		-	(1)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	16	1,443	3,239
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)		7,767	1,443
Others informations:			
Interests payed		2,120	1,194
Income taxes payed		1,630	710

Statement of changes in consolidated shareholders' equity

(€ in thousands)	Share capital	Legal reserve	Share premium reserve	Statutory reserve	Translation reserve	Other reserves	Net income for the period	Total Equity attributable to Parent Company Shareholders	Total non-controlling interests	Total shareholders' equity
Balance as at 1 January 2009	9,058	389	2,554	295	(1,668)	(2,061)	7,134	15,701	3	15,704
Net income for the period	-	-	-	-	-	-	7,368	7,368	10	7,378
Other income (loss)	-	-	-	-	(230)	-	-	(230)	-	(230)
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**7,138**	**10**	**7,148**
Allocation of net income for the period	-	228	-	-	-	4,913	(5,141)	-	-	-
Dividend distribution	-	-	-	-	-	-	(1,993)	(1,993)	-	(1,993)
Increase in share capital	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2009	9,058	617	2,554	295	(1,898)	2,852	7,368	20,846	13	20,859
Net income for the period	-	-	-	-	-	-	5,243	5,243	(29)	5,214
Other income (loss)	-	-	-	-	1,381	-	-	1,381	-	1,381
Total comprehensive income/(loss)	-	-	-	-	-	-	-	**6,624**	***(29)***	**6,595**
Allocation of net income for the period	-	181	-	-	-	4,605	(4,786)	-	-	-
Dividend distribution	-	-	-	-	-	-	(2,582)	(2,582)	-	(2,582)
Increase in Share capital and share premium reserve	1,650	-	8,361	-	-	-	-	10,011	-	10,011
Other changes	-	-	-	(295)	-	126	-	(169)	25	(144)
Balance as at 31 December 2010	10,708	798	10,915	-	(517)	7,583	5,243	34,730	9	34,739

Explanatory notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 December 2010

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, beginning from 1 july 2010. The registered office of the Tesmec Group (hereinafter "Group" or "Tesmec Group") is in Milan, Piazza S. Ambrogio no. 16.

The publication of Tesmec's consolidated financial statements for the period ended as at 31 December 2010 was authorised by means of the resolution of the Board of Directors on 14 March 2011.

2.Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2010 comprise the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated cash-flow statement, statement of changes in consolidated shareholders' equity and the related explanatory notes. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and approved by the European Union according to the text published on the Official Journal of the European Communities (OJEC) and in effect as at 31 December 2010 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 (called "IAS") and all interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").
The reference accounting standards adopted in the current yearly consolidated financial statements are consistent with those used for preparing the yearly consolidated financial statements of the Group for the period ended as at 31 December 2009, also prepared according to the international accounting standards, with the exception of the principles and interpretations of new application, explained in note 3.2.

Business continuity

The Company considered that, even in the difficult economic and financial situation, there are no significant uncertainties on the principle of going-concern, even in the light of the economic and financial soundness of the Parent Company and of the Group.
The financial statements and relevant explanatory notes are presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

2.1 Adopted financial statement reporting formats

In compliance with the provisions of Consob resolution n. 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, 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.
- 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 consolidated 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.

Finally, 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 not reported under specific sub-items, in case of significant amounts, in the consolidated statement of financial position, consolidated income statement and statement of consolidated cash flows.

2.2 Consolidation methods and area

The consolidated financial statements are prepared on the basis of the draft financial statements approved by the Boards of Directors. The financial statements of subsidiaries are prepared using the same accounting policies of the parent company. Subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires the control, and they are no longer consolidated on the date on which the control is transferred outside the Group.
All balances and intragroup 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 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 associated companies are evaluated using the equity method. Profit or loss attributable to parent company shareholders is recognised in the consolidated financial statements from the date on which the significant influence began and until the date on which it ceases.
Joint ventures are defined in accordance with IAS 31 as a contractual agreement whereby two or more parties undertake an economic activity subject to joint control. The proportional method of consolidation adopted by the Group requires the financial statements of the investor to report the proportional share of each asset, liability, income and charges from the financial statements of the investee. The equity investments acquired or sold during the financial period are consolidated for the period in which the joint control was exercised.
The following tables summarise, with regard to subsidiaries, joint ventures and associated companies information as at 31 December 2010, relating to name, registered office, share capital held directly and indirectly by the Group.

SUBSIDIARIES (full consolidation method, by making clear the portion of non-controlling interests)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	Directly	Indirectly
TESMEC USA	Alvarado (Texas)	US Dollar	21,200.000	100%	-
TESMEC Service	Costa Volpino (BG) - Italy	Euro	120,000	100%	-
TESMEC Balkani (former Tesmec Beta)	Plovdiv (Bulgaria)	Bulgarian Lev	50,000	66%	-

ASSOCIATED COMPANIES (consolidated with the equity method)					
				Percentage held	
Name	Registered office	Currency	Share capital Currency unit	Directly	Indirectly
Zao Sibtechmash	Ishim (Russia)	Rouble	6,136,000	20%	-
Locavert SA	Bouillargues (France)	Euro	403,735	39%	-
Consorzio Stabile Energie Locali S.c.a.r.l.	Brescia - Italy	Euro	10,000	-	24%
East Trenchers	Pordenone - Italy	Euro	30,000	24%	
Consorzio Lombartech	Dalmine (BG) - Italy	Euro	78,000	19%	-

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%	-
Consorzio TR S.c.a.r.l.	Grassobbio (BG) - Italy	Euro	10,000	50%	-

The associated companies, Zao Sibtechmash and Locavert SA, draw up their financial statements as at 30 June of each year. Financial statements used for evaluating equity investments in accordance with the equity method refer to the most recent available interim closing of accounts. These 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 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 for the determination of the counter-value in Euros of the foreign currency financial statements of subsidiary companies (currency for 1 Euro) are shown below:

	Average exchange rate For the period ended as at 31 December		Period end exchange rate as at 31 December	
	2010	2009	2010	2009
US Dollar	1.326	1.395	1.3362	1.441
New Bulgarian Lev	1.956	1.956	1.956	43.15
Russian Rouble	40.26	44.14	40.82	36.41

3.Accounting standards

3.1 General Notes

The consolidated financial statements have been prepared in accordance with the historical cost principle and of the derivative financial instruments and financial assets held for sale stated at fair value.
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Discretionary assessment and significant accounting estimates

The preparation of the financial statements of the Group requires the directors to carry out discretionary assessments, estimates and assumptions that affect the values of revenues, costs, assets and liabilities and the indication of contingent liabilities at the end of the reporting period. The final results may differ from said estimates. Estimates are used for recognising:

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 - Severance Indemnity
Provision for severance indemnity is determined by using actuarial evaluations. The actuarial evaluation requires assumptions on discount rates, future increases in salary, turnover and death rates. Since these are long-term plans, such estimates are subject to a significant level of uncertainty. Net liability towards the employees for severance indemnity as at 31 December 2010 amounts to Euro 2,968 thousands.

Development costs
Development costs are capitalised on the basis of the accounting standard explained below. The directors must make assumptions on future cash flows expected from fixed assets, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised. As at 31 December 2010, capitalised development costs amount to Euro 3,399 thousand.

Moreover, estimates are used for recognising provisions for bad debts, product guarantees, provisions for risks and charges, inventory obsolescence, amortisation, depreciations and write-downs of assets, fair value of derivative financial instruments, and evaluation of intangible assets on business combinations pursuant to IFRS 3.
Estimates and assumptions are periodically revised and the effects of each change are immediately reflected in the income statement.

Business combinations and goodwill

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

flow generating unit of the Group that is expected to benefit from the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to such units.
If the goodwill has been allocated to the financial-flow generating unit and the entity disposes of part of the assets of such unit, the goodwill associated to the asset disposed of must be included in the book value of the asset when the profit or loss deriving from the divestment is determined. The goodwill associated with the asset disposed of must be determined on the basis of the values related to the asset disposed of and of the retained part of the financial-flow generating unit.

Intangible assets with definite lives

Intangible assets are recorded in the assets at purchase cost when it is likely that the use of the asset will generate future economic benefits and when the cost of the asset can be measured reliably. Intangible assets acquired by means of business combinations are recorded at fair value at the date of acquisition, if this value can be measured reliably. Intangible assets produced internally are not capitalised and are recognised in the income statement of the financial period in which they were borne.
Intangible assets with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Group are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.
Intangible assets with indefinite lives are tested annually for impairment losses on an individual basis or in terms of cash-generating unit.
Profits or losses deriving from the disposal of an intangible asset are measured as the difference between the net income and the book value of the asset and are recognised in the income statement upon disposal.

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

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

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

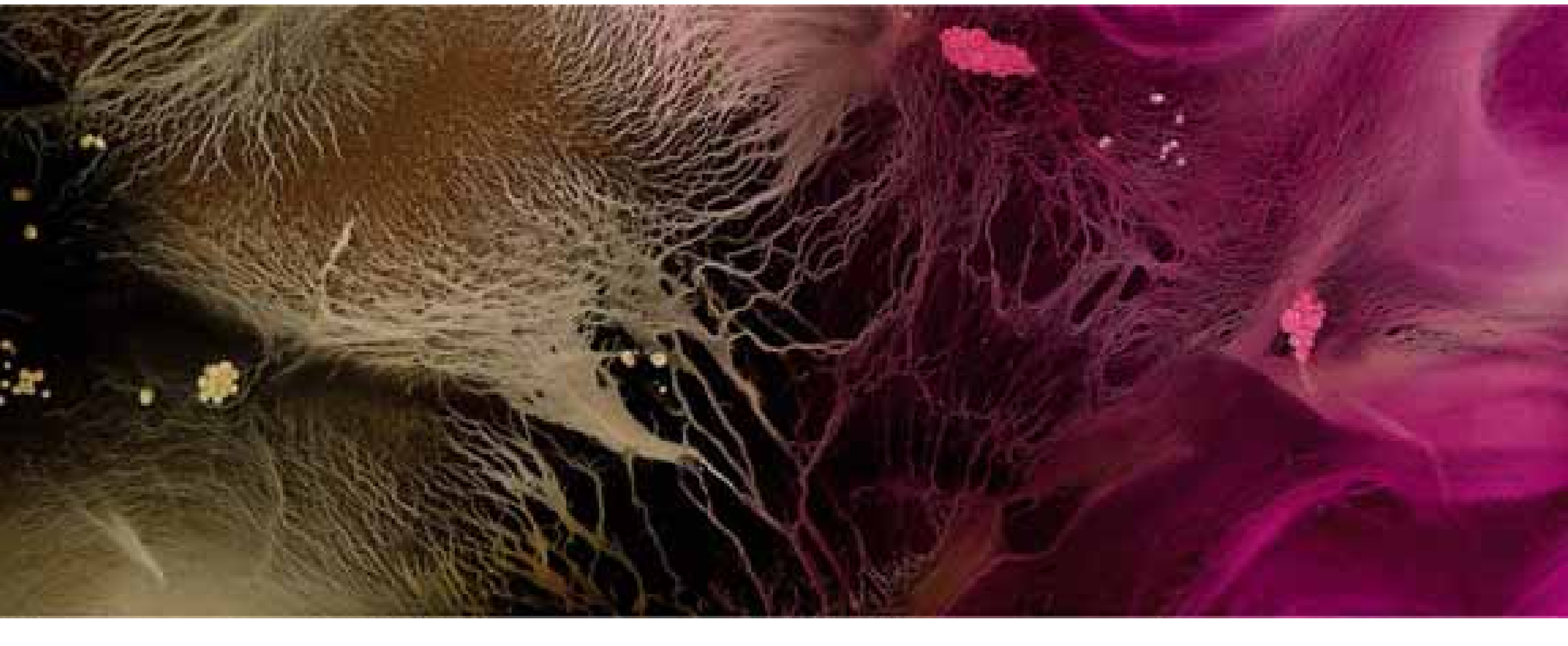
Rights and trademarks
This item refers to the purchase of know-how for the production of Gallmac excavating machines and to the Gallmac trademark. The purchase costs of the rights and trademarks are amortised over a period of time during the useful life of the acquired asset, which was determined in five years.

Property, plant and equipment

Property, plant and equipment acquired separately, with the exception of the land and buildings item, are recorded at historical cost, including directly imputable additional costs necessary for putting the asset into operation for the use for which it was acquired. This cost includes the charges for replacing part of the machinery 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 depreciations 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 other equipment	4
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 book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.
When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement among costs for amortisation, depreciations and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.
At the time of sale or when there are no future economic benefits, expected from the use of an asset, it is written off from the financial statements and any loss or profit (calculated as the difference between the transfer value and the book value) is posted to the income statement in the year of the aforesaid writing off.



Leases

Contracts with the Group as lessee

Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement.
Capitalised leased assets are amortised during the period of time of the estimated useful life of the asset or the period of validity of the lease contract, whichever is shorter, if the reasonable certainty that the Group will obtain the ownership of the asset at the end of the contract does not exist.
The leases in which the lessor retains substantially all the risks and benefits related to the ownership of the assets are classified as operating leases and the related costs are recorded in the income statement over the period of validity of the contract.

Contracts with the Group as lessor

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

Impairment of assets

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

Equity investments in joint ventures

The Group holds an investment in a jointly controlled company classified as joint venture. A joint venture is a contractual agreement according to which two or more parties undertake an economic activity subject to joint control; a jointly-controlled company is a joint venture that involves the establishment of a separate company in which each shareholder has an equity investment. The Group consolidates the equity investment in the joint venture with the equity method. The joint venture draws up the financial statements of the same financial period of the parent company and applies homogeneous accounting policies. Any lack of homogeneity in the applied accounting policies are corrected by adjustments.
When the Group brings or sells assets to the joint venture, the recognition of profit or loss shares deriving from the operation reflects the contents of the operation itself. When the Group purchases goods or services from the joint venture,

it does not recognise its own profit share deriving from the operation until it sells such asset or service to an independent third party.
The proportionate consolidation of the joint venture is interrupted on the date on which it is no longer jointly controlled by the Group.

Equity investments in associates

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

Financial assets and other non-current assets

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

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.

Trade receivables and other current assets

Trade receivables and 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. Moreover, trade receivables are adjusted to their estimated realisable value by entering a special adjustment provision.
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 is attributed to the income statement.
If the maturity of the trade receivables and of the other current assets do 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 benefits related to their legal ownership were substantially transferred to the assignee.
The operations of factoring without recourse of the Tesmec Group include deferred payment clauses (for example, the payment by the factor of a small part of the purchase price is subject to the total collection of the receivable), require an exemption by the assignor or imply the maintenance of an exposure to the trend of the assigned receivable. This type of operation does not always observe the requirements of IAS 39 for the writing off of the asset from the balance sheet, since their risks and benefits have not been substantially transferred. As a result, if the receivables assigned without recourse do not fulfil the conditions of the aforesaid requirement, they remain recorded in the financial statements of the Tesmec Group, even though they have been assigned legally; and a financial liability of an equal amount is recorded under liabilities for the advance received.

Other receivables and other financial assets

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

- the rights to receive financial flows from the asset terminated;
- the Group retains the right to receive financial flows from the asset, but has undertaken the contractual obligation to pay them in full and without delay to a third party;
- the Group transferred the right to receive financial flows from the asset and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not transfer substantially all the risks and benefits of the asset, but transferred their control.

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

Cash and cash equivalents

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

Loans

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

Trade payables and other payables

Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in the item where the operation was originally recognised.

Provisions for risks and charges

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

Employee benefit liability

Post employment benefits are defined on the basis of plans, even though not yet formalised, which are classified as "defined contribution" and "defined benefit" in relation to their characteristics.

The Italian legislation (article 2120 of the Italian Civil Code) establishes that, at the date on which each employee rescinds the employment contract with the company, he/she receives an allowance called TFR (severance indemnity). The calculation of this allowance is based on some items forming the yearly pay of the employee for each year of work (properly revalued) and on the length of the employer-employee relationship. According to the Italian civil law, this allowance is reflected in the financial statements according to a calculation method based on the allowance accrued by each employee at the reporting date, if all employees rescind the employment contract on that date.
The IFRIC of the IASB dealt with the TFR matter, as defined by the Italian legislation, and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.
The Group's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. Actuarial gains and losses related to defined benefit plans, accumulated up to the prior financial period and reflecting the effects deriving from changes in the actuarial assumptions used, are recorded in full in the income statement.
The evaluation of liabilities is made by an independent actuary.
For the period ended as at 31 December 2007, following changes in laws and regulations introduced by the Italian legislator, which contemplated the option for the employee to allocate the accrued severance indemnity as from 1 July 2007 to INPS or to the supplementary benefit funds, actuarial assumptions were revised and their effects were recorded in the income statement in accordance with the provisions of IAS 19.
The Group has no other defined benefit pension plan.
The Group's liability deriving from defined-contribution plans is limited to the payment of contributions to the State or to an asset or legally separate entity (so-called fund), and is determined on the basis of the contributions due.

Government grants

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

Financial instruments

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

- Financial assets at fair value through profit or loss
- Investments held to maturity
- Loans and receivables
- Available-for-sale financial assets
- With reference to financial liabilities, only two categories are established:
- Financial liabilities at fair value through profit or loss
- Liabilities at amortised cost.
- The methods for determining the fair value with reference to such financial instruments, with accounting or information purposes, are summarised below with reference to the main categories of financial instruments, to which they have been applied:
- derivative instruments: the appropriate pricing models based on market interest rates and on currency exchange ratios;
- receivables and payables and unlisted financial assets: the discount cash flow method was applied for financial instruments falling due after one year, i.e. the discounting back of expected cash flows in consideration of current interest rates and credit rating;
- listed financial instruments: the market value at the date of reference is used.

Derivative financial instruments

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

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

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

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

Revenues and costs

Revenues and costs are stated on an accrual basis. Revenues and income, presented net of returns, discounts, allowances and premiums, are recorded at fair value insofar as it is possible to reliably determine such value and its economic benefits are likely to be enjoyed.
Revenues from the sale of goods are recognised when all the following conditions are met:

- significant risks and benefits related to the ownership of the goods were transferred to the purchaser;
- the usual ongoing activities associated with the ownership of the goods are no longer carried out, and the actual control of the sold goods is no longer exercised;
- the amount of revenues can be reliably determined;
- the future economic benefits are likely to be enjoyed;
- the costs borne, or to be borne, can be reliably estimated.

More specifically, with reference to sales with CIF condition, risks and benefits related to the ownership of the asset are transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over to the carrier, if the customer has already borne the insurance cost.
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 Appendix 1 of IAS 18 have been complied with:

- the machine has been completed and is available to be shipped to the customer;
- the customer indicated in writing, at a date before the date of invoicing, its own irrevocable intent to purchase the asset; moreover, this condition implies that the customer shall bear the insurance cost for the periods during which it is still available at the warehouse of the company and relevant transport; therefore, it is reasonable for the sale to be carried out;
- the customer gave clear and precise indications on the delivery of the machine;
- standard payment terms are applied to the 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, risks and benefits are transferred, and therefore the revenues are recognised, when the machine has been tested and the purchaser has accepted.
Revenues from services rendered are recognised when all the following conditions are met:

- the amount of the revenue can be measured reliably.
- it is likely that the economic benefits deriving from the operation will flow to the company;
- the completion stage of the operation at the end of the reporting period may be reliably measured;

- costs incurred for the operation and costs to be borne in order to complete it may be reliably calculated.

In particular, the Tesmec Group provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterpart that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the progress of the excavation to date, as resulting from the states of the work-in-progress recognised and agreed with the counterpart.
Moreover, the Tesmec Group provides after-sales services concerning the machines sold. If these services are requested after the expiry of the guarantee period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.
Rents and rentals deriving from the contract signed for the exploitation of the deposit of natural gas of the Tesmec USA subsidiary are recorded among other operating income on a straight-line basis along the period of validity of the lease agreements existing at the end of the reporting period.

Financial income and expenses

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

Determining the fair value of financial instruments

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

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided. Dividends from other companies are classified in the income statement among other operating costs/revenues, since they concern equity investments of segments in which the group operates consisting in a long-term investment. Dividends from other companies held only as a financial investment are classified among financial income.

Income taxes

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

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

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

- such tax applied to the purchase of goods and services is non-deductible, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- they refer to trade receivables and payables for which the invoice has already been issued or received and they are stated by including the value of the tax.

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

Earnings per share

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

3.2 Changes and new principles and interpretations

The accounting principles adopted are consistent with those used for the prior financial period, with the exception of the following IFRIC standards and interpretations, new and revised, in force as from 1 January 2010:
IFRS 2 *Share-based payments: group operations with cash-settled share-based payment*. In force since 1 January 2010
IFRS 3 *Business combinations (Revised) and IAS 27 Consolidated and separate financial statements* (Amended) in force since 1 July 2009 including the amendments ensuing from: IFRS 2, IFRS 5, IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
IAS 39 Financial Instruments: recognition and measurement, eligible hedged items in force since 1 July 2009
IFRIC 17 Distributions of non-cash assets to owners
Improvements to the IFRS (May 2008)
Improvements to the IFRS (April 2009)

The adoption of standards and interpretations is described below:

IFRS 2 Share-based payments (Revised)

The IASB issued an amendment to IFRS 2 that explains the purpose and recording of group transactions with cash-settled share-based payments. The Group has adopted this amendment since 1 January 2010 but this did not have any impact on the financial position or on the performance of the Group.

IFRS 3 Business combinations (Revised) and IAS 27 Consolidated and separate financial statements (Amended)

The IFRS 3 (Revised) introduces significant changes in the recording of business combinations. Changes concern the measurement of non-controlling interests, the recording of transaction costs, initial recognition and the subsequent measurement of any contingent consideration and step business combinations. These changes shall have an impact on the amount of the recognised goodwill, on the results achieved during the period in which the acquisition occurs and on future results.

IAS 27 (Revised) requires for a change in the ownership structure of a subsidiary (while control is retained) to be accounted for as an equity transaction with owners. Therefore, these transactions shall no longer produce goodwill, profit or loss. Moreover, the amended principle introduces changes concerning the recording of losses recognised by the subsidiary and of the loss of control of the subsidiary. Changes introduced by IFRS 3 (Revised) and by IAS 27 (Revised) concern acquisitions or loss of control of a subsidiary and transactions with minority interests.
The change in the accounting principles was applied prospectively and did not produce effects on earnings per share.

Amendments to IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation

On 14 February 2008, the International Accounting Standards Board (IASB) published Amendments to the international accounting standard (IAS) 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable financial instruments and obligations arising on liquidation. Amendments impose to classify as capital certain instruments issued by companies and currently classified as a liability despite having characteristics similar to ordinary

shares. Disclosures are required concerning such instruments and it would be appropriate to apply new rules to their reclassification.
The change in the accounting principles was applied prospectively and did not produce effects on earnings per share.

IAS 39 Financial Instruments: recognition and measurement, eligible hedged items

The amendment states that an entity is permitted to designate a portion of the changes in fair value or cash flows of a financial instrument as the hedged item. The amendment also includes the designation of inflation as a hedged risk or portion of risk in particular situations. Tesmec S.p.A. has concluded that this amendment will have no impact on the financial position or performance of the Group, since it does not use similar hedging items.

IFRIC 12 Service concession arrangements

IFRIC 12 is an interpretation that explains how to apply provisions of International Reporting Financial Standards (IFRS) to service concession arrangements. In particular, IFRIC 12 shows how to account for the undertaken obligations and the rights received by a service concession operator distinguishing among intangible model, financial model and mixed model depending on the level of uncertainty to which the service concession operator is exposed for what concerns cash flows deriving from the carrying out of the concession as well as of the obligations undertaken on the use of the infrastructure for the provision of the service. Tesmec S.p.a. came to the conclusion that this change will not have any impact on the financial position or on the corporate performance.

IFRIC 15 Agreements for the construction of real estate

On 3 July 2008, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 15 Agreements for the construction of real estate (hereinafter «IFRIC 15»). IFRIC 15 provides clarifications and guidance on when the revenues from the construction of real estate must be recognised and in relation to the application of IAS 11 Construction Contracts or of IAS 18 Revenue to an agreement for the construction of real estate. Tesmec S.p.a. came to the conclusion that this change will not have any impact on the financial position or on the corporate performance.

IFRIC 16 Hedges of a net investment in a foreign operation

On 3 July 2008, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 16 Hedges of a net investment in a foreign operation. IFRIC 16 is an interpretation that clarifies the rules for the application of the requirements of international accounting standards IAS 21 and IAS 39 if an entity hedges the exchange-rate risk arising from its net investment in foreign operations. Tesmec S.p.a. came to the conclusion that this change will not have any impact on the financial position or on the corporate performance.

IFRIC 17 Distributions of non-cash assets to owners

This interpretation provides guidance on the recording of agreements according to which an entity distributes to owners non-cash assets such as distribution of reserves or dividends. This amendment did not have any impact on the financial position or performance of the Group.

Improvements to the IFRS

In May 2008 and in April 2009, IASB issued a series of improvements to the principles, mainly with a view to mainly eliminating inconsistencies and explaining the terminology. Each standard has ad hoc transitional clauses. The adoption of the following amendments results in changes in accounting policies with no impact on the financial position or results of the Group.

Issued in may 2008

- IFRS 5 Non-current assets held for sale and discontinued operations clarifies that when a subsidiary is classified as held for sale, all of its assets and liabilities are classified as assets held for sale, even if the company after the sale will represent a minority interest. The amendment was applied prospectively and with no impact on the financial position or results of the Group.

Issued in april 2009

- IFRS 5 Non-current assets held for sale and discontinued operations clarifies that the disclosures requested in relation to non-current assets, and to disposal groups classified as held for sale or related to discontinued operations, are those requested by IFRS 5.

  The disclosure requested by other IFRS applies only if specifically requested with reference to these types of non-current assets or discontinued operations.

- IFRS 8 Operating segments explains that assets and liabilities of the operating segment need be presented only if part of the financial report used by the senior operating decision maker.
- Since senior operating decision maker of the Group revises the assets and liabilities by segment, the Group continued to provide this information in Note 8.
- IAS 7 Statement of Cash flows states that only the expenditure that results in the recognition of an asset can be classified as a financial flow from investing activities. This amendment has not led to substantial changes in the presentation of the Cash-flow Statement of the Tesmec Group.
- IAS 36 Impairment of assets the amendment clarifies that the largest identifiable unit (cash-flow generating unit) for the purposes of allocation of the goodwill acquired in a business combination, is the operating sector as defined by IFRS 8 before the combination for reporting purposes. The amendment did not affect the Group.

Other amendments related to improvements to the IFRS to the following principles that did not affect the accounting policies, the financial position or the performance of the Group are listed below:

Issued in april 2009

- IFRS 2 Share-based payments
- IAS 1 Presentation of financial statements
- IAS 17 Leases
- IAS 34 Interim financial reporting
- IAS 38 Intangible assets
- IAS 39 Financial Instruments: Recognition and measurement
- IFRIC 9 Reassessment of embedded derivatives

Forthcoming accounting principles

The list of the forthcoming principles and the estimate of the potential impacts on the financial statements is set below:

IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction

On 15 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published some amendments to IFRIC 14 the limit on a defined benefit asset, minimum funding requirements and their interaction ». The purpose of the amendments to IFRIC 14 is to eliminate an unwanted consequence of IFRIC 14 if the entity subject to a minimum contribution makes a prepayment of contributions for which under certain circumstances the entity making such prepayment would be obliged to account for an expense. If a defined benefit plan is subject to a minimum contribution, the amendment to IFRIC 14 requires to treat this prepayment as an asset, like any other prepayment

IFRIC 19: Extinguishing financial liabilities with equity instruments

On 26 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 19 Extinguishing financial liabilities with equity instruments, whose purpose is to provide guidelines on the recording by the debtor of the equity instruments issued for extinguishing all or part of a financial liability following the renegotiation of the relevant conditions. The companies apply IFRIC 19 and the amendment to IFRS 1 at the latest as from the starting date of their first financial period that begins after 30 June 2010.

IAS 24: Related Party Disclosures

On 4 November 2009, the International Accounting Standards Board (IASB) published the revision of the International Accounting Standard (IAS) 24 — Related Party Disclosures. The amendments introduced with the revision of IAS 24 simplify the definition of «related party» while eliminating some inconsistencies and exempt public bodies from some disclosure requirements relating to transactions with related parties. The companies apply IAS 24 and the amendments to IFRS 8 at the latest as from the starting date of their first financial period that begins after 31 December 2010.

4.Financial risk management policy

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 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 three-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 Swap, Collar and Cap are used when managing such a risk.

As at 31 December 2010, there were three 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 9.4 million, with a positive equivalent value of around Euro 7 thousand.

As at 31 December 2009, there were three positions related to interest-rate derivative instruments (two Interest rate swaps, one Cap) 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 4.8 million, with a negative equivalent value of around Euro 212 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 are referable to existing interest bearing financial payables (current portion) and interest bearing financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2011 financial period (compared to 2010) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2010 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 2011 financial period (compared to 2010, calculated with reference to the situation existing at the end of the 2009 reporting period, respectively) 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 2011 financial period (compared to 2010);
- 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 2010, 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 2011 financial period of around Euro 155 thousand, offset by an increase of around Euro 54 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 around Euro 46 thousand, offset by a decrease of around Euro 16 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2009, a parallel shift of the term structure of interest rates of +100 basis points (+1 %) would result in an increase in financial expenses accrued in the 2010 financial period of around Euro 219 thousand, offset by an increase of around Euro 35 thousand in the collected spread 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 around Euro 66 thousand, offset by a decrease of around Euro 10 thousand in the collected spread for the existing derivatives.

	Interest Rate					
	December 2010			December 2009		
(€ in thousands)	Residual debt	Impact on the IS +100 bs	Impact on the IS -30 bs	Residual debt	Impact on the IS +100 bs	Impact on the IS -30 bs
Borrowings	(40,754)	(155)	46	(50,802)	(219)	66
Total Loans	(40,754)	(155)	46	(50,802)	(219)	66
(in thousands)	Notional	Impact on the IS +100 bs	Impact on the IS -30 bs	Notional	Impact on the IS +100 bs	Impact on the IS -30 bs
Derivative instruments hedging cash flows	9,400	54	(16)	4,800	35	(10)
Total Derivative instruments	9,400	54	(16)	4,800	35	(10)
Total		(101)	30		(184)	56

(€ in thousands)	Notional value	Net FV	Net FV + 100 bps	Δ Net FV + 100 bps	Impact on the IS + 100 bps	Impact on SE + 100 bps	Net FV -30 bps	Δ Net FV -30 bps	Impact on the IS -30 bps	Impact on SE -30 bps
	Fair Value Sensitivity of Derivates *December, 31 2010*									
Derivative instruments hedging cash flows	9,400	7*	268	261	-	261	(86)	(93)	-	(93)
Total	9,400	7	268	261	-	261	(86)	(93)	-	(93)

(€ in thousands)	Notional value	Net FV	Net FV + 100 bps	Δ Net FV + 100 bps	Impact on the IS + 100 bps	Impact on SE + 100 bps	Net FV -30 bps	Δ Net FV -30 bps	Impact on the IS -30 bps	Impact on SE -30 bps
										December, 31 2010
Derivative instruments hedging cash flows	4,800	(212)	(149)	63	-	63	(232)	(20)	-	(20)
Total	4,800	(212)	(149)	63	-	63	(232)	(20)	-	(20)

With reference to the situation as at 31 December 2010, 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 261 thousand, with an impact on the Income statement of the 2011 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 93 thousand, with an impact only on the Income statement of the 2011 financial period.

With reference to the situation as at 31 December 2009, 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 around Euro 63 thousand, with an impact on the income statement of the 2010 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 20 thousand, with an impact only on the Income statement of the 2010 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. All positions relating to trade receivables, both with reference to the end of the 2010 and 2009 reporting periods, expire before 12 months, , Euro 817 thousand have a maturity beyond the financial period

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 the 2010 and 2009 financial periods is set out below.

Expiry	Financial period as at 31 December 2010				
	Financial Payables				
	Capital	Interest Rates	Trade Payables	Derivate Instruments	Total
(€ in thousands)	a	b	c	d	a+b+c+d
Within 12 months	20,773	1,157	26,291	(113)	48,108
Between one and two years	3,986	936	-	(10)	4,912
Between two and three years	6,171	793	-	10	6,974
Between three and five years	3,300	937	-	64	4,301
Between five and seven years	5,600	751	-	47	6,398
After more than 7 years	924	42	-	14	980
Total	40,754	4,616	26,291	12	71,673

Expiry	Financial period as at 31 December 2010				
	Financial Payables				
	Capital	Interest Rates	Trade Payables	Financial Payables	Total
(€ in thousands)	a	b	c	d	a+b+c+d
Within 12 months	38,649	1,057	21,804	(133)	61,377
Between one and two years	4,030	528	-	(78)	4,480
Between two and three years	1,571	456	-	(4)	2,023
Between three and five years	6,230	350	-	-	6,580
Between five and seven years	322	16	-	-	338
After more than 7 years	-	-	-	-	-
Total	50,802	2,407	21,804	(215)	74,798

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 2010 and 31 December 2009).

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). 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.

In order to reduce the exposure to the exchange-rate risk deriving from its own commercial operations, the Company signs derivative contracts (currency forward contracts) fit for defining in advance the conversion rate, or a predetermined range of conversion rates, on future dates.

The potential impacts on the income statement of the 2011 financial period (compared to 2010) referable to the exchange-rate risk are set below:

- revaluation/write-downs of asset and liability items in foreign currency;
- change in the fair value of existing derivative instruments hedging asset and liability items in foreign currency.

The Company estimated the potential impacts on the income statement of the 2012 and 2011 financial periods (compared to 2010, calculated with reference to the situation existing at the end of the 2009 reporting period, respectively) 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	Exposure in foreing currency *(USD) 2010*			Sensitivity 2010	
	Asset (USD/000)	Liability (USD/000)	Equity (USD/000)	Δ Income Statem. EUR/USD Exchange Rate +5%	Δ Income Statem. EUR/USD Exchange Rate -5%
Trade receivables	13,250		13,250	(496)	496
Trade payables		-	-	-	-
Total gross exposure with regard to equity items	**13,250**	**-**	**13,250**	**(496)**	**496**
Derivate instruments	-	-	-	-	-
Total net exposure with regard to equity items	**13,250**	**-**	**13,250**	**(496)**	**496**

Exposure with regard to equity items	Exposure in foreing currency *(USD) 2009*			Sensitivity 2009	
	Asset (USD/000)	Liability (USD/000)	Equity (USD/000)	Δ Income Statem. EUR/USD Exchange Rate +5%	Δ Income Statem. EUR/USD Exchange Rate -5%
Trade receivables	12,993		12,993	(451)	451
Trade payables		-	-	-	-
Total gross exposure with regard to equity items	**12,993**	**-**	**12,993**	**(451)**	**451**
Derivate instruments	-	-	-	-	-
Total net exposure with regard to equity items	**12,993**	**-**	**12,993**	**(451)**	**451**

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.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

Non-current assets

5.Intangible assets

The breakdown of *Intangible assets* as at 31 December 2010 and as at 31 December 2009 is indicated in the table below:

	31 December					
			2010			2009
(€ in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	13,737	(7,737)	6,000	9,297	(4,390)	4,907
Rights and trademarks	2,000	(1,368)	632	1,850	(1,155)	695
Intangible assets in progress	181	-	181	78	-	78
Total intangible assets	15,918	(9,105)	6,813	11,225	(5,545)	5,680

The following table shows the changes in intangible assets for the period ended as at 31 December 2010:

(€ in thousands)	01/01/2010	Increases due to purchases	Decreases	Reclassifications	Amortisation	Exchange-rate differences	31/12/2010
Development costs	4,907	4,059	-	30	(3,040)	44	6,000
Rights and trademarks	695	145	-	-	(208)	-	632
Assets in progress and advance payments to suppliers	78	154	(22)	(30)	-	1	181
Total	5,680	4,358	(22)	-	(3,248)	45	6,813

All the costs related to projects for the development of new products and equipment that are expected to generate positive cash flows in future financial periods are capitalised in Development costs.
Intangible assets as at 31 December 2010 net of amortisation amounted to Euro 6,813 thousand and increases for the period totalling Euro 4,358 thousand mainly consist in development costs of Euro 4,059 thousand and the remaining part in software licenses mainly related to the purchase of the new Hyperion system for reporting and consolidated financial statements.
In case of impairment signs and as a result of impairment tests there are results suggesting that the value of a project will not be recovered by the generation of future cash flows, it is fully amortised in the financial period.

6.Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2010 and as at 31 December 2009 is indicated in the table below:

	31 December					
	2010			2009		
(€ in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Land	174	-	174	160	-	160
Buildings	6,620	(1,239)	5,381	6,030	(848)	5,182
Plant and machinery	9,866	(4,069)	5,797	8,861	(3,179)	5,682
Equipment	2,109	(1,669)	440	1,994	(1,646)	348
Other assets	8,227	(2,066)	6,161	7,307	(1,514)	5,793
Assets under construction and advance payments to suppliers	40	-	40	18	-	18
Total property, plant and equipment	27,036	(9,043)	17,993	24,370	(7,187)	17,183

Including leased property, plant and equipment :

	31 December					
	2010			2009		
(€ in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Land	-	-	-	-	-	-
Buildings	-	-	-	-	-	-
Plant and machinery	3,002	(622)	2,380	3,215	(1,785)	1,430
Equipment	56	(56)	-	142	(105)	37
Other assets	336	(301)	35	312	(253)	59
Assets under construction and advance payments to suppliers	-	-	-	-	-	-
Total property, plant and equipment	3,394	(978)	2,415	3,669	(2,143)	1,526

The following table shows the changes in property, plant and equipment for the period ended as at 31 December 2010:

(€ in thousands)	01/01/2010	Increases due to purchases	Decreases	Reclassificati ons	Amortisation	Exchange-rate differences	31/12/201 0
Land	160	-	-	-	-	14	174
Buildings	5,182	10	-	-	(217)	406	5,381
Plant and equipment	5,682	1,059	-	(100)	(919)	75	5,797
Equipment	348	213	-	91	(212)	-	440
Other assets	5,793	2,226	(991)	9	(921)	45	6,161
Assets under construction and advance payments to suppliers	18	40	(18)	-	-	-	40
Total	17,183	3,548	(1,009)	-	(2,269)	540	17,993

In 2010, Tesmec invested in property, plant and equipment, net of disinvestments, an overall amount of Euro 2,539 thousand.
The description of the investment by individual items is indicated below:

- plant and equipment overall net investment of Euro 1,059 thousand mainly related to the modernisation of the production plant of Sirone with the purchase of a new work centre of Euro 565 thousand and of a new lathe, with a lease contract of Euro 200 thousand;

- Equipment increased by Euro 213 thousand, the increase mainly refers to the modernisation of the production plant of Sirone and to the purchase of dies for new fittings for the stringing equipment;

- other assets increased by a net amount of Euro 1,235 thousand, the increase mainly refers to the increase in the trencher fleet used by the Tesmec USA associate for rental/service activities;

- Assets under construction and advance payments to suppliers increased, net of disinvestments of Euro 18 thousand, by Euro 22 thousand investments related to the construction of new machines for the stringing equipment.

7.Investments in associated companies measured at equity method

The breakdown of *investments in associated company measured at equity method* as at 31 December 2010 and 2009 is indicated in the table below:

	31 December	
(€ in thousands)	2010	2009
Associated companies:		
Locavert SA	186	192
Zao Sibtechmash	-	-
Consorzio Stabile Energie Locali S.c.a.r.l.	3	3
Consorzio Lombartech	15	15
East Trenchers	11	-
Subtotal	**215**	**210**
Joint ventures:		
Consorzio TR Scarl	-	5
Condux Tesmec Inc	1,041	932
Subtotal	**1041**	**937**
Total Equity investments measured using the equity method	**1,256**	**1,147**

On 1 September 2010, the Parent Company acquired a 24% capital share of East Trenchers S.r.l. with registered office in Pordenone with the purpose of developing the rental/service business for the trencher area with a special emphasis on the Eastern Europe area.
The most important data of the financial statements of associates is summarised below.

(€ in thousands)	31 December 2010							
	% held	Revenues	Net income	Assets	Liabilities	Shareholders' equity	Equity investment value in the Consolidated Financial Statements	Value of provision for risks due to losses
Associated companies:								
Locavert SA	38.63%	888	(7)	448	262	186	186	-
Zao Sibtechmash	20.00%	4	(1)	5	10	(5)	-	5
Consorzio Lombartech	19.23%	10	(7)	14	14	-	15	-
East Trencher Srl	24.00%	6	3	285	274	11	11	-
Joint ventures:								
Consorzio TR S.c.a.r.l.	50.00%	-	(2)	82	83	(1)	-	1
Condux Tesmec Inc.	50.00%	2,398	89	2,085	1,044	1,041	1,041	-

8.Other equity investments

Other equity investments that remained unchanged compared to the previous financial period includes the shares held by Tesmec S.p.A. in the trade consortia: Consorzio Intellimech (Euro 2 thousand) and other consortia (Conai, Eurofidi).

9.Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2010 and 2009:

(€ in thousands)	31 December 2010	31 December 2009
Guarantee deposits	7	7
Financial receivables due from associates, related parties and joint ventures	-	1,211
Fair value of derivative financial instruments	-	-
Other non-current assets	-	3
Total financial receivables and other non-current financial assets	7	1,221

The change in *Financial receivables and other non-current assets* compared to the prior financial period is entirely linked to the reduction of financial receivables due from related parties that decreases of Euro 1,211 thousand. This receivable was due from the Reggiani Macchine company and was fully collected during the year.

Current assets

10.Inventories

The following table sets forth the breakdown of Inventories as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Raw materials and consumables	27,416	27,244
Work in progress	7,828	8,135
Finished goods and merchandise	6,540	6,587
Advance to suppliers for assets	436	-
Total Inventories	42,220	41,966

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole increased by 1% of Euro 254 thousand. This increase compared to the increase in revenues (+22%) shows an improvement in the management of inventories in proportion to the volume of generated revenues.
The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2010 and 2009 are indicated in the table below:

	Financial period ended as at 31 December	
(€ in thousands)	2010	2009
Value at 1 January	1,709	1,654
Provisions	273	242
Use	(174)	(169)
Exchange-rate differences	39	(18)
Total provisions for inventory obsolescence	1,847	1,709

The value of the provisions for inventory obsolescence increased by 8% compared to the prior financial period as a result of an analytical measurement carried out on the basis of the last movement date of each material.
The evaluation of adequacy of the provision is carried out on a regular basis to constantly monitor the actual level of inventory recoverableness through sales.

11.Trade receivables

The following table sets forth the breakdown of trade receivables as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Trade receivables from third-party customers	29,503	25,411
Trade receivables from associates, related parties and joint ventures	2,979	3,045
Total trade receivables	32,482	28,456

For terms and conditions relating to receivables from related parties, refer to paragraph 37.
Trade receivables from customers as at 31 December 2010 amounted to Euro 32,482 thousand up by Euro 4,026 thousand compared to the 2009 financial period, this increase is strictly related to the increase in revenues.
Trade receivables from third-party customers are mainly due within 12 months. Euro 817 thousand have a maturity beyond the financial period for which instruments guaranteeing the credit were used. Supplies to customers located in specific geographical areas, and mainly in the Middle East, North Africa and India, are carried out against letters of credit and, therefore, these supplies are collected when the goods are shipped.
The adjustment of receivables from foreign customers at the year-end exchange-rate implied the recognition of an unrealised foreign exchange gain of Euro 98 thousand as at 31 December 2010.

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 and by applying to each class an expected percentage of loss derived from historical experience.
The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2010 and 2009 are indicated in the table below:

	Financial period ended as at 31 December	
(€ in thousands)	2010	2009
Value at 1 January	904	1,099
Provisions	1,293	237
Uses	(1,505)	(425)
Exchange-rate differences	35	(7)
Total provision for doubtful accounts	727	904

Provisions and uses of the 2010 financial period related to the provision for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

12.Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Receivables from tax authorities for documented development costs	-	259
IRES receivables	6	807
Other tax receivables	429	9
Total tax receivables	435	1,075

Tax receivables as at 31 December 2010 refer to:

- receivables from tax authorities for the refund of IRAP sanctions paid with regard to the 2005 tax year, amounting to Euro 46 thousand, for which the Provincial Tax Commission of Milan decided the refund in favour of the company;
- receivables for taxes paid abroad in the year 2010, amounting to Euro 2 thousand;
- tax receivables accrued by the American associate for withholding taxes, losses amounting to Euro 374 thousand.

13 Other available-for-sale securities

The following table sets forth the breakdown of other available-for-sale securities as at 31 December 2010 and 2009

	31 December	
(€ in thousands)	2010	2009
Shares of Banca Popolare di Sondrio	-	96
Shares of Banco Popolare Italiano	9	18
Shares of Banca Popolare di Vicenza	92	-
Total other available-for-sale securities	101	114

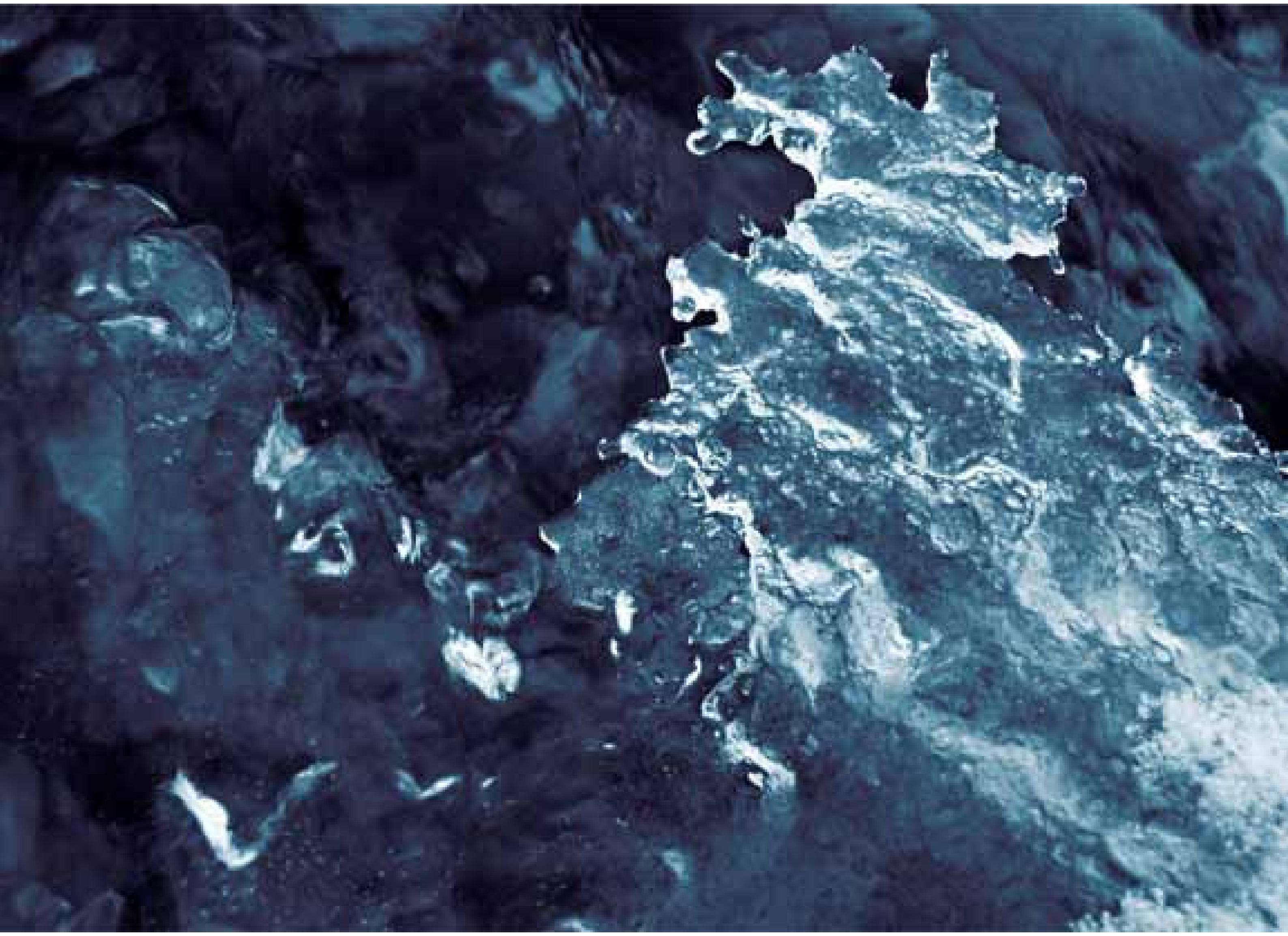
Other available-for-sale securities as at 31 December 2010 consists of 3,357 shares of Banco Popolare Italiano for a unit value of Euro 2,475 and of 1,500 shares of Banca Popolare di Vicenza for a unit value of Euro 61.5, these shares were purchased on 30 December 2010.
During the financial period, 13,440 shares of Banca Popolare di Sondrio were sold on 19 March 2010 obtaining a capital gain of Euro 4 thousand.

14.Financial receivables and other current financial assets

The following table sets forth the breakdown of financial receivables and other current financial assets as at 31 December 2010 and as at 31 December 2009:

	31 December	
(€ in thousands)	2010	2009
Financial receivables due from associates, related parties and joint ventures	226	2,974
Guarantee deposits	15	285
Other current financial assets	62	-
Total financial receivables and other current financial assets	303	3,259

Guarantee deposits as at 31 December 2010 and as at 31 December 2009 mainly refer to amounts paid by Tesmec S.p.A. for lease and supply contracts. The guarantee deposit for the purchase option of the Endine building was reclassified among financial receivables from related parties.
For terms and conditions relating to receivables from related parties, refer to paragraph 37.



15.Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2010 and as at 31 December 2009:

	31 December	
(€ in thousands)	2010	2009
Accrued income	2	-
Prepaid expenses	598	323
Deferred listing costs	-	1,227
VAT credit	389	1,408
Other receivables	457	338
Advance to suppliers for services	96	47
Total other current assets	1,542	3,343

Other current assets are considered receivable and therefore were not subject to value adjustment.
Prepaid expenses amounted to Euro 598 thousand as at 31 December 2010 whereas they amounted to Euro 323 thousand as at 31 December 2009 and they mainly refer to advance payments of insurance premiums and operating rentals.
Deferred listing costs amounted to zero as at 31 December 2010 as a result of the listing on 1 July 2010.
VAT credit, which amounted to Euro 389 thousand as at 31 December 2010, decreased by Euro 1,019 thousand compared to 31 December 2009.
Other receivables as at 31 December 2010 amounted to Euro 457 thousand compared to Euro 338 thousand as at 31 December 2009
Advance to suppliers as at 31 December 2010 amounted to Euro 96 thousand compared to Euro 47 thousand as at 31 December 2009; they mainly refer to advance payments to suppliers for the purchase of services.

16.Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Bank and post office deposits	7,696	1,377
Cash on hand	71	66
Total cash and cash equivalents	7,767	1,443

Cash and cash equivalents are depositated in current deposits and they are remunerated at a floating rate related to the Euribor trend.
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 Group believes that the credit risk related to cash and cash equivalents is limited since it mainly represents deposits divided across domestic and international banking institutions.

17.Shareholders' equity

Equity

Following the increase in share capital carried out upon the listing of the Tesmec Group on 1 July on the Regulated Market, STAR segment, managed by Borsa Italiana, to date the share capital of Tesmec S.p.A. totals Euro 10,708,400 and is comprised of 107,084,000 shares with a par value of Euro 0.1 each.

The following table sets forth the breakdown of Other reserves as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Revaluation reserve	86	86
Extraordinary reserve	6,502	5,278
Retained earnings/(losses brought forward)	5,043	1,536
Bills charged directly to net equity	-	-
on operations with entities under common control	(4,048)	(4,048)
Total other reserves	7,583	2,852

During the 2010 financial period, an increase in share capital was carried out for Euro 1,650 thousand, from Euro 9,058 thousand to 10,708 thousand, as detailed in the statement of changes in Shareholders' Equity. Such increase was carried out upon the listing on 1 July of the Tesmec Group on the Regulated Market, STAR segment, managed by Borsa Italiana.
As at 31 December 2010, the share capital of Tesmec S.p.A. totals Euro 10,708,400 and is comprised of 107,084,000 shares with a par value of Euro 0.1 each.
The increase in the *Share premium reserve* from Euro 2,554 thousand to Euro 10,915 thousand is completely related to the listing of the shares of the Company on the Italian Electronic Stock Market (STAR segment) through the issue of new 16,500,000 shares of the premium value of Euro 0.6 each.
Such increase, of Euro 8,361 thousand in total, was shown net of expenses related to the Public Subscription Offer of Euro 2,070 thousand in compliance with the provisions of IAS 32.

Non-current liabilities

18.Interest bearing financial payables

Interest-bearing financial payables include medium/long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the consolidated financial statements in accordance with the financial leasing accounting method.
The following table shows the breakdown thereof as at 31 December 2010 and as at 31 December 2009, with separate disclosure of the current portion:

(*€ in thousands*)	31 December 2010	of which current portion	2009	of which current portion
Efibanca – non-preferential loan; original value Euro 5 million, drawn down on 21 May 2007 with maturity date 30 June 2012; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.70% .	3,750	1,875	5,000	2,500
Eracle Finance – non-preferential unsecured loan drawn down on 13 July 2006 from JP Morgan Chase Bank and transferred on 2 August 2006 to Eracle Finance; original value Euro 4 million; repayable in a single installment on 31 July 2013; fixed interest rate of 7.61% + variable interest rate <0.0% and 0.1%>	3,930	-	3,895	-
Banca Popolare di Lodi – non-preferential loan with Sace guarantee for 50% of the amount; original value Euro 2 million, drawn down on 16 January 2008 with maturity date 31 March 2013; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.50%	900	400	1,300	400
Banca Popolare di Milano –loan at variable interest rate; original value Euro 1 million; drawn down on 18 May 2009 with maturity date 28 February 2010; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.30%	-	-	224	224
Iccrea Banca – Istituto Centrale del Credito Cooperativo – non-preferential loan in pool assisted by Sace guarantee for 70% of amount; original value Euro 2 million; drawn down on 6 August 2009 with maturity date 30 September 2014; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.70%	1,487	381	1,858	371
Banca Popolare dell'Emilia Romagna – non-preferential loan with Sace guarantee for 70% of the amount; original value Euro 2 million; drawn down on 20 October 2009 with maturity date 31 December 2014; fixed annual interest rate of 4.2%	1,633	383	2,000	367
Banca Nazionale del Lavoro – loan at variable interest rate, with a 2-year pre-amortization; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; variable interest rate equivalent to Euribor 6 monthly rate + spread of 2.25%	6,000	-	-	-
Banca Popolare di Milano loan at variable interest rate; original value Euro 2 million; drawn down on 16 June 2010 with maturity date 30 June 2011; variable interest rate equivalent to Euribor 3 monthly rate + spread of 2%	1,007	1,007	-	-
Southwest Securities - loan received by TESMEC USA and linked to and guaranteed by a building owned by this company; original value USD 2.6 million; drawn down in 2005; renegotiated in 2007 and repayable by July 2012 (with renewal option); interest rate equivalent to US Prime Rate + spread of 0.5%	1,533	1,533	1,525	1,525
Southwest Securities- loan drawn down in 2009 by TESMEC USA; original value USD 2.9 million; with the possibility of reviewing the terms of the contract every 5 years; variable interest rate equivalent to the US Prime Rate + spread of 1%. The loan contract specifies a minimum 6% interest rate	3,078	3,078	2,933	2,933
Total interest bearing financial payables	23,318	8,657	18,735	8,320
Less current portion	(8,657)		(8,320)	
Non-current portion of medium and long term loans	14,661		10,415	
Loan due to Simest	3,696		-	
Total medium/long term loans	18,357		10,415	
Non-current portion of finance leases	2,045	421	2,105	367
Less current portion	(421)		(367)	
Non-current portion of finance leases, net	1,624		1,738	
Total current portion		9,078		8,687
Interest-bearing loans and borrowings	19,981		12,153	

Some loan contracts (Efibanca, ICCREA-BCC, BNL) contain certain financial covenant clauses, calculated on the basis of the separate financial statements of TESMEC or the Group consolidated financial statements; they are verified on an annual or semi-annual basis.
In general, covenants are based on the observance of the following relations:

- Net financial indebtedness / EBITDA
- Net financial indebtedness/Shareholders' equity

Based on the results of the financial statements of the Company and of the Tesmec Group, all expected covenants have been observed.
The loan contracts stipulated with Southwest Securities specify that, in relation to the loans issued by the credit institution, TESMEC USA must comply with certain parameters for the Debt Service Coverage Ratio and the Debt to Net Worth Ratio, calculated on the basis of the separate financial statements of TESMEC USA Inc. prepared in accordance with US GAAP and verified on a quarterly basis. On the date of this document, the Debt Service Coverage Ratio was not observed. Moreover, it is noted that according to an agreement signed in September 2010 with Southwest Securities, such covenants have been extended to the Tesmec S.p.A. parent company, which became jointly and severally committed in relation to the same loans. On the date of this document, such financial parameters, with regard to Tesmec S.p.A., were observed.
Whereas, on the basis of what is described in paragraph "Significant events occurred after the close of the financial period", the Group on 4 March 2011 signed an agreement related to the syndicated loan for a total of Euro 21 million, organised by BNL-BNP PARIBAS Group, as arranger and lending bank with the participation of Banca Popolare di Milano S.c.a.r.l., Intesa Sanpaolo S.p.A., Unicredit S.p.A., GE Capital Interbanca S.p.A. and Banca Popolare di Vicenza S.c.p.a. as lenders and this contract practically aims at refinancing all the existing payable to Southwest Securities that will be repaid within the first half of 2011; the entire debt was classified among current liabilities.

During the first-half of 2010, Tesmec S.p.A. raised two new loans with important banks: a loan of Euro 6,000 thousand with Banca Nazionale del Lavoro with maturity on 31 August 2018 and a fully short-term loan of Euro 2,000 thousand with Banca Popolare di Milano.
On 28 December 2010, Efibanca approved the extension of the loan that was to expire originally on 30 November 2011 until 30 June 2012.
The loan due to Simest of Euro 3,696 thousand derives from TESMEC USA's share capital increase carried out in January.
The average cost of indebtedness is benchmarked to the trend of the three-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 Group as at 31 December 2010, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description	Maturity	Interest rate	Residual value as at 31 December 2010	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Efibanca	30 June 2012	variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.7%	3,750	1,875	1,250	-
Eracle Finance	31 July 2013	fixed interest rate of 7.61% + variable interest rate <0.0% and 0.1%> equivalent to Euribor 3 monthly rate + spread of 1.10%	3,930	-	3,930	-
Banca Popolare di Lodi	31 March 2013	variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.5%	900	400	500	-
Iccrea Banca - Istituto Centrale del Credito Cooperativo	30 September 2014	variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.70%	1,487	381	1,106	-
Banca Popolare dell'Emilia Romagna	31 December 2014	Fixed interest rate of 4.2%	1,633	383	1,250	-
Southwest Securities	July 2012	variable interest rate equivalent to the US Prime Rate + spread of 0.5%	1,533	1,533	-	-
Southwest Securities	December 2014	variable interest rate equivalent to the US Prime Rate + spread of 1%	3,078	3,078	-	-
Banca Nazionale del Lavoro	31 May 2018	variable interest rate equivalent to Euribor 6 monthly rate + spread of 2.25%	6,000	-	3,231	2,769
Banca Popolare di Milano	30 June 2011	variable interest rate equivalent to Euribor 3 monthly rate + spread of 2%	1,007	1,007	-	-
Total			23,318	8,657	11,267	2,769

Net financial indebtedness

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

	31 December			
(€ in thousands)	2010	*of which with related parties and group*	2009	*of which with related parties and group*
Cash and cash equivalents	(7,767)	-	(1,443)	-
Current financial assets [1]	(404)	*(226)*	(3,373)	*(2,974)*
Current financial liabilities	20,773	-	38,649	-
Current portion of derivative financial instruments	90	-	-	-
Current financial indebtedness [2]	12,692	*(226)*	33,833	*(2,974)*
Non-current financial liabilities	19,981	-	12,153	-
Non-current portion of derivative financial instruments	34	-	212	-
Non-current financial indebtedness [2]	20,015	-	12,365	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	32,707	*(226)*	46,198	*(2,974)*

[1] The current financial assets as at 31 December 2010 and 31 December 2009 include the market value of shares and warrants listed on the Italian Stock Exchange (Borsa Italiana), which are therefore accounted as cash and cash equivalents.

[2] Current and non-current financial indebtedness is not identified as an accounting element by the IFRS. The valuation criteria

applied by the Group may not necessarily be the same as those adopted by other groups and therefore the balance obtained by the Group may not necessarily be comparable therewith.

The decrease in indebtedness compared to 31 December 2009 is mainly due to good liquidity management and to the income from the listing operation net of costs. It is noted that dividends of Euro 2,582 thousand were paid during the year.

19.Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2010 and 2009 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal (Euro)	Fair Value (Euro/000) as at 31 December 2010	2009
BNL	IRS	Fixed interest rate 4.6%	Euribor 3 months	02/10/2008	02/10/2011	2,500,000	(90)	(158)
Banca Popolare di Lodi	IRS	Fixed interest rate 4.25%	Euribor 3 months	31/03/2008	31/03/2013	900,000	(34)	(54)
BNL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	Euribor 3 months	01/09/2010	31/05/2018	6,000,000	131	-
Assets for derivative instruments							131	-
Liabilities for derivative instruments within the financial period							(90)	-
Liabilities for derivative instruments beyond the financial period							(34)	(212)

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. These hedging transactions are mainly related to medium-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.

20.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 required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type.
The following table shows the changes for the period ended as at 31 December 2010 and as at 31 December 2009 of employee benefits:

	Financial period ended as at 31 December	
(€ in thousands)	2010	2009
Present value of the liability at the beginning of the period	3,211	3,344
Curtailment	-	-
Financial expense	135	134
Transfers	-	-
Benefits paid	(411)	(237)
Actuarial profit / loss recognised	33	(30)
Present value of the liability at the end of the period	2,968	3,211

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 as at 31 December	
	2010	2009
Annual discount rate	4.50%	4.50%
Inflation rate	2.00%	2.00%
Expected turnover rate of employees	2.00%	2.00%
Advance rate	3.00%	3.00%

Technical and demographic bases

	Financial period ended as at 31 December	
	2010	2009
Mortality	IPS55 tables	IPS55 tables
Disability	INPS-2000 tables	INPS-2000 tables
Retirement age	59.13	59.10

Frequency of turnover and advances on severance indemnity

	Financial period ended as at 31 December	
	2010	2009
Advance frequency %	1.70%	2.10%
Turnover frequency %	16.00%	17.00%

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

	Financial period ended as at 31 December			
(average no. of employees)	2010	2009	2010 vs. 2009	%
Tesmec S.p.A.	290	269	21	7.8%
Tesmec USA, Inc.	56	73	(17)	-23.3%
Total	346	342	4	1.2%

The average number of employees as at 31 December 2010 shows the growing trend of the Company in 2010 that was partially related to the listing process. This process resulted in the recruitment of high-potential professionals in the Middle Management range.

Current liabilities

21. Interest bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2010 and 2009 financial periods:

	31 December	
(€ in thousands)	2010	2009
Advances from banks against invoices and bills receivables	7,040	23,723
Short-term portion of financial leases	421	367
Advances from factors	760	1,385
Current accounts overdraft	3,895	4,854
Current portion of interest-bearing loans and borrowings	8,657	8,320
Total interest-bearing financial payables (current portion)	20,773	38,649

Advances from factors decreased compared to the prior financial period passing from Euro 1,385 thousand to Euro 760 thousand. This item refers to advances without recourse granted to our suppliers by leading factoring companies.
Interest-bearing financial payables (current portion) decreased by Euro 17,876 thousand compared to 31 December 2009 as a result of the listing operation closed successfully on 1 July 2010, of the cash flow from current operations and of the increase in medium to long-term sources of financing.

22.Trade payables

The breakdown of *Trade payables* as at 31 December 2010 and as at 31 December 2009, respectively, is indicated in the table below:

	31 December	
(€ in thousands)	2010	2009
Trade payables due to third-parties	26,207	21,719
Trade payables due to associates, related parties and joint ventures	84	85
Total trade payables	26,291	21,804

Trade payables as at 31 December 2010 increased by Euro 4,488 thousand compared to the prior financial period mainly due to the combined effect of the increase in external purchases as a result of higher sales volumes and to the gradual alignment of the terms of payment with the conditions of collection from the customers, thanks to the policy undertaken during 2010.

23.Income taxes payable

The balance of Euro 3,937 thousand as at 31 December 2010 and Euro 1,716 thousand as at 31 December 2009, represents the amount payable for current income taxes for the period.

	31 December	
(€ in thousands)	2010	2009
IRPEF for employees due to the revenue	512	345
Current IRES tax liabilities	2,809	941
Current IRAP tax liabilities	495	399
Other current taxes	90	7
Withholding taxes	31	24
Total income taxes payable	3,937	1,716

IRES and IRAP taxes payable as at 31 December 2010 includes the net payable due by the Group for the payment of direct income taxes.

24.Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund, which includes the estimate of the cost of the interventions that the Group deems to carry out during the next financial period against the sales carried out during the financial period. 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 2010 and 31 December 2009 are indicated below:

	Financial period ended as at 31 December	
(€ in thousands)	2010	2009
Value at 1 January	751	746
Provisions	428	201
Uses	(348)	(179)
Exchange-rate differences	5	(17)
Value as at 31 December	836	751

The provisions include an amount of Euro 178 thousand allocated during the financial period, related to a receivable of Euro 357 thousand for advances paid in order to activate a job order for technical assistance service in the area of North Africa and the Middle East. In the light of the current political situation in the Area, it was deemed correct to write such receivable down by 50%.
The remaining part of the provisions and uses refer to the changes in the guarantee fund that the Group uses with regard to the technical support operations carried out during the period in which the customer is covered by the contract guarantee.

25.Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2010 and as at 31 December 2009:

	Period ended at 31 December	
(€ in thousands)	2010	2009
Due to social security	713	563
Due to INAIL (National Insurance Institute for Industrial Accidents)	1	(18)
Due to trade funds	118	112
Due to employees and collaborators	1,985	1,307
Due to others	10	432
Accrued expenses and liabilities	447	288
Total other current liabilities	3,274	2,684

Other current liabilities increased compared to the prior financial period of Euro 590 thousand. The increase is linked almost exclusively to the increase due to employees and collaborators, that passes from Euro 1,307 thousand to Euro 1,985 thousand and mainly refers to the payables accrued for the remunerations of December that are settled in the first few days of January and for the remaining part to the payable related to amounts for holiday entitlement accrued and not taken.

26.Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2010 and 31 December 2009:

	Period ended at 31 December	
(€ in thousands)	2010	2009
Deferred tax assets	4,912	3,367
Deferred tax liabilities	936	1,440

The breakdown of net deferred taxes as at 31 December 2010 and 2009 is shown in the following table by type by listing the items that present underlying temporary differences:

	31 December				Period ended as at 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
(€ in thousands)	2010	2009	2010	2009	2010	2009
Deferred tax assets						
Entertainment expenses	1	4	-	-	(3)	(4)
Maintenance charges	9	12	-	-	(3)	(3)
Guarantee fund	165	195	-	-	(30)	(8)
Provision for risks	49	-	-	-	49	-
Obsolescence fund	377	377	-	-	-	-
Provisions for doubtful accounts	72	105	-	-	(33)	(2)
Directors' fees	-	-	-	-	-	(14)
Unrealised exchange-rate losses	100	43	-	-	57	43
Tax effect on intercompany margin reversals	-	270	-	-	-	(135)
Tax effect on UCC gain reversals	1,127	1,172	(246)	-	(147)	(375)
Reversals of intangible assets	302	295	22	-	(15)	(228)
Tax effect on selling margin adjustments (IAS 18) TESMEC	-	-	-	-	-	(64)
Tax effect on selling margin adjustments (IAS 18) TESMEC Service	47	-	-	-	47	-
Tax effect on selling margin adjustments (IAS 18) TESMEC USA	62	-	-	(57)	62	(143)
Deferred tax assets TESMEC USA	452	542	3	(60)	(92)	68
Deferred tax assets on previous tax losses TESMEC USA	837	163	6	-	668	163
Deferred tax assets on previous tax losses TESMEC Service	-	112	-	-	(112)	112
Development costs	81	-	-	-	81	-
Listing expenses	1,225	-	584	-	641	-
Other temporary differences	6	77	-	-	6	9
Total Deferred tax assets	4,912	3,367	369	(117)	1,176	(581)
Deferred tax liabilities						
Unrealised exchange-rate gains	(66)	(19)	-	-	(47)	(19)
Selling margin pertaining for tax purposes to subs. financial periods	(27)	(343)	-	-	316	(343)
Financial lease accounting method	(109)	(361)	223	-	29	(91)
Difference of value - USA building	(275)	(263)	(19)	9	7	5
Deferred tax liabilities TESMEC USA	(357)	(369)	(49)	-	61	(369)
Other temporary differences	(102)	(85)	-	98	15	(35)
Total deferred tax liabilities	(936)	(1,440)	155	107	381	(852)
Effect on Shareholders' Equity						
Net balance deferred wealth taxes	3,976	1,927				
Represented in the income statement as follows:						
Deferred tax assets	1,176	(581)				
Deferred tax liabilities	381	(852)				
Deferred tax assets (liabilities), net	1,557	(1,433)				

According to the Italian tax legislation, losses can be retained in the next five financial periods except for losses suffered in the first three financial periods of the company that can be retained without limits. Tax losses of foreign companies can be retained on average over a period exceeding five financial periods with a considerable portion that can be retained without limits. Tax recovery corresponds to a rate of 27.5% for Italian companies, whereas it corresponds to an average rate of around 34% for foreign companies.

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2010 and 2009 are summarised below:

(€ in thousands)	Financial period ended as at 31 December	
	2010	2009
Consolidated pre-tax profits	7,998	9,576
Current taxation:		
Italy	(4,252)	(1,578)
USA	(89)	813
Rest of the World	-	-
Deferred tax liabilities/assets		
Italy	936	(1,093)
USA	621	(340)
Rest of the World	-	-
Total Income taxes	(2,784)	(2,198)

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:

(€ in thousands)	Financial period ended as at 31 December	
	2010	2009
Income before taxation	7,998	9,576
IRES tax rate in force during the period	27.50%	27.50%
Theoretical tax charge	(2,199)	(2,633)
IRAP	(764)	(710)
Permanent tax differences	197	332
Fiscal benefit of Tesmec USA' "statutory of limitations"	-	768
Fiscal losses utilised	-	-
Effect of change in tax rate	-	-
Effect of different tax rate for foreign companies	-	45
Total difference	197	1,145
Total tax charge as per income statement	(2,784)	(2,198)

Comments to the main items in the income statement

27.Revenues from sales and services

In the 2010 and 2009 financial periods, revenues from sales and services amounted to Euro 105,280 thousand and Euro 86,088 thousand, respectively.
The breakdown of revenues from sales and services for the 2010 and 2009 financial periods is shown below:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Sales of products	100,107	84,480
Services rendered	5,173	1,608
Total revenues from sales and services	105,280	86,088

Revenues from product sales refer to income deriving from the transfer of stringing machines and trenchers and stringing equipment.
Revenues from rendering of services as at 31 December 2010 mainly include revenues deriving from the supply of integrated excavation solutions of Euro 4,750 thousand. This activity was started at the end of the 2008 financial period, but was developed in 2009 and especially in 2010 also thanks to the obtainment of a new contract work in South Africa for the carrying out of an excavation between the cities of Durban and Johannesburg on behalf of one of the main South African construction companies. In this project, Tesmec S.p.A. rented 4 trenchers and the service activity, started in August 2009 ended in August 2010.
The revenues of the company registered a 22% growth rate that will be better analysed later in the segment reporting.
The item also includes revenues for after-sales services to customers totalling Euro 423 thousand as at 31 December 2010 and totalling Euro 286 thousand as at 31 December 2009.

28.Cost of raw materials and consumables

For the financial periods as at 31 December 2010 and 2009, cost of raw materials and consumables amount to Euro 48,687 thousand and Euro 38,583 thousand, respectively.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Cost for the purchase of raw materials and consumables	47,941	40,119
Change in inventories	737	(1,576)
Total cost of raw materials and consumables	48,678	38,543

It should be noted that the increase of the cost item is mainly determined by the increase in sales volume. In the second half of the 2010 financial period, tensions on the trend of commodity prices started to occur with the increase in purchase costs. Tesmec Group countered this phenomenon with a policy of important savings including the search for suppliers in Countries with low labour costs but with high-quality levels.

29.Costs for services (including non-recurring expenses related to the IPO project)

The table below shows the breakdown of *costs for services* that amounted in 2010 and in 2009 to Euro 24,111 thousand and Euro 16,609 thousand, respectively.

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Transport, customs and incidental expenses	2,724	1,752
Outsourced work service	4,911	4,318
Services for legal, tax, technical and other consultancy	7,194	2,126
External production services	1,480	1,237
Banking services	527	510
Insurance	322	664
Energy, water, gas, telephone expenses and postage	1,127	950
Board and lodging expenses and travelling allowance	828	884
Directors' and Auditors' fees	861	549
Advertising and other selling expenses	683	394
Maintenance services	408	387
Commissions and additional expenses	2,331	2,119
Other general expenses	715	719
Total costs for services	24,111	16,609

The increase in costs for services is mainly related to the change in the following items:

- costs related to outsourced work together with external production services, which represent the variable component of this cost item, increased by 15% from Euro 5,555 thousand in the 2009 financial period to Euro 6,391 thousand in the 2010 financial period. However, it must be noted that they increased less than proportionally than the increase in sales volumes (+22%). This phenomenon was possible thanks to the strategy of increasing the production base of the company over the last years.
- consultancy costs of Euro 7,194 thousand in the 2010 financial period compared to Euro 2,126 thousand in the 2009 financial period. In 2010, this item includes costs incurred for the listing process of the Parent Company totalling Euro 3,515 thousand. This item includes costs related to the start of new service activities and new commercial representation offices (Beijing Office) where the Company made use of the experience of external consultants.
- commissions and additional expenses (Euro 2,331 thousand in the 2010 financial period, Euro 2,119 thousand in the 2009 financial period) increased by 9% and mainly refer to fees recognised to agents of the stringing department.
- transport, customs and incidental *expenses* increased due to a general increase of the freight costs compared to 2009 and due to the different mix of products sold.
- The item increased by 45% compared to the previous year. However, by separeting the costs related to the listing process, the item would have increased by 24%.

30.Payroll costs

During the financial periods ended 31 December 2010 and 2009, payroll costs amounted to Euro 17,119 thousand and Euro 15,463 thousand, respectively, up by 11%.

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Wages and salaries	13,143	11,862
Social security charges	3,289	2,826
Employee severance indemnity	627	731
Other personnel costs	60	44
Total payroll costs	17,119	15,463

The increase in this item is related to the adjustment of the personnel to pursue the expansion process of the Group. Following the conversion of the production operations of the factory of Sirone, the Company resorted to the redundancy fund by rotation starting from April 2009 through December 2009 for about 15 employees including approximately 11 workers (totalling 18,700 hours). Later on, an agreement dated 12 January 2010 activated the special redundancy fund for at least a maximum number of 13 zero-hour workers as from 1 February 2010 until 31 January 2011 (totalling 23,580 hours).

31.Other operating (costs)/revenues, net

During the financial periods ended 31 December 2010 and 2009, other net operating (costs)/revenues amounted to Euro 3,692 thousand and Euro 2,714 thousand, respectively, with a 36% increase.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Provisions for risks and other net provisions	76	20
Write-down of equity investments	-	-
Rents	2,965	2,832
Hiring	382	347
Other lease and rental expenses	104	210
Sundry taxes	472	333
Other revenue	(299)	(637)
Other	(8)	(391)
Total other operating (costs)/revenues, net	3,692	2,714

This cost item also increased by 36% more than proportionally compared to the increase in revenues. The figure, as at 31 December 2009, benefited from positive components not related to the core business of the company concerning the sale of some plants and equipment.
The rental paid by the Parent Company for the premises of Sirone increased in 2010 by Euro 113 thousand as a result of the expansion of the areas occupied for the activities carried out.

32. Amortisation and depreciation

During the financial periods ended 31 December 2010 and 2009, depreciations and amortisation amounted to Euro 5,517 thousand and Euro 3,416 thousand, respectively, with a 62% increase.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Amortisation of intangible assets	3,248	2,032
Depreciations of property, plant and equipment	2,269	1,384
Total amortisation and depreciation	5,517	3,416

The increase in this cost for intangible assets is due to higher research and development costs amortised during the period. For property, plant and equipment the higher depreciation is related to the fleet of machines used for the service activity of the trencher segment. The depreciation was calculated on the basis of the greater use.

33.Research and development costs capitalised

Research and development costs capitalised for the financial periods ended 31 December 2010 and 31 December 2009 amounted to Euro 3,050 and Euro 2,789 thousand, respectively.
During the reporting period, there is an increase in investments in research and development costs capitalised in relation to the expansion carried out of the number of personnel of the technical office in order to support the growing number of projects for the launch of new models and new functions requested by the markets in which the company operates.
However, as a result of the increased level of revenues of the company, the percentage weight of research and development costs capitalised on the revenues of the company dropped from 3.5% for the 2009 financial period to 3.0% for the 2010 financial period.

34.Financial expenses

During the financial periods ended 31 December 2010 and 2009, financial expenses amounted to Euro 3,396 thousand and Euro 3,132 thousand, respectively, with a 8% increase.
The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Bank interests expense	631	14
Interests payable for factoring and billing discounts	386	268
Interests payable on interest-bearing loans and borrowings	1,002	1,024
Interests payable on advance loans on exports	487	717
Interests payable on derivative instruments	-	145
Other sundry financial expenses	50	14
Financial expenses on lease contracts	153	260
Realised foreign exchange losses	478	531
Unrealised foreign exchange losses	208	156
Fair value adjustment of derivative instruments	1	3
Fair value adjustment of financial instruments available for sale	-	-
Total financial expenses	3,396	3,132

The figure *Financial expenses* mainly consist of:

- interest rates payable on interest-bearing loans and borrowings that are unchanged compared to the prior financial period;

- interests payable on advance loans on exports that decreased in the 2010 financial period due to the decrease in the use of this type of short-term borrowing;

- foreign exchange losses that as at 31 December 2010 amounted to Euro 478 thousand, down from the previous year.

35.Financial income

During the financial periods ended 31 December 2010 and 2009, financial income amounted to Euro 1,749 thousand and Euro 400 thousand, respectively
The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Interests from banks	30	45
Realised foreign exchange gains	1,052	16
Unrealised foreign exchange gains	171	68
Fair value adjustment of derivative instruments	222	-
Fair value adjustment of financial instruments available for sale	-	9
Miscellaneous income	274	262
Total financial income	1,749	400

Financial income in the financial period ended 31 December 2010 was mainly affected by:

- realised foreign exchange gains of Euro 1,052 in 2009 was 16 thousand.

- the positive value of the fair value adjustment of derivative instruments (interest-rate hedging of medium/long-term loans) of Euro 222 thousand that mainly refer to the hedging carried out on the BNL, 8 years, mortgage loan contracted by the Parent Company in June 2010.

36.Segment Reporting

For management purposes, Tesmec Group is organized into strategic business units on the basis of the nature of the goods and services supplied, and presents two operating segments for disclosure purposes:

- stringing equipment: this segment is involved in the design, production and marketing of integrated solutions for the stringing and maintenance of underground and aerial very high, high and medium voltage electric power lines, stringing equipment for underground and overhead optic fibre cables, as well as integrated solutions for the stringing and maintenance of electric power lines for railways. The stringing equipment segment machines are produced at the Italian production plants of Grassobbio (Bergamo), Endine Gaiano (Bergamo) and Sirone (Lecco);

- trencher: this segment is involved in the design, production and marketing of integrated solutions that entail the use of high powered trenching machines for the linear excavation of underground power lines and pipelines or for other excavation operations and, on a smaller scale, Gallmac multipurpose machines. The trencher segment products are manufactured at the Grassobbio (Bergamo) and Sirone (Lecco) production plants in Italy, and at the Alvarado plant in Texas in the USA.

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

	31 December							
	2010				2009			
(€ in thousands)	Stringing equipment	Trencher	Not allocated	Tesmec Group	Stringing equipment	Trencher	Not allocated	Tesmec Group
Intangible assets	2,454	4,359	-	6,813	1,899	3,781	-	5,680
Property, plant and equipment	487	17,506	-	17,993	600	16,583	-	17,183
Financial assets	1,044	216	136	1,396	-	1,210	1,160	2,370
Other non-current assets	-	1,404	3,508	4,912	-	112	3,255	3,367
Total non-current assets	**3,985**	**23,485**	**3,644**	**31,114**	**2,499**	**21,686**	**4,415**	**28,600**
Inventories	10,518	31,702	-	42,220	10,160	31,806	-	41,966
Trade receivables	13,506	18,976	-	32,482	11,155	17,301	-	28,456
Other current assets	468	624	1,289	2,381	614	3,039	4,138	7,791
Cash and cash equivalents	-	-	7,767	7,767	-	-	1,443	1,443
Total current assets	**24,492**	**51,302**	**9,056**	**84,850**	**21,929**	**52,146**	**5,581**	**79,656**
Total assets	**28,477**	**74,787**	**12,700**	**115,964**	**24,428**	**73,832**	**9,996**	**108,256**
Equity attributable to Parent Company Shareholders	**-**	**-**	**34,730**	**34,730**	**-**	**-**	**20,846**	**20,846**
Non-controlling interests	**-**	**-**	**9**	**9**	**-**	**-**	**13**	**13**
Non-current liabilities	**-**	**945**	**22,974**	**23,919**	**-**	**906**	**16,110**	**17,016**
Current financial liabilities	-	-	20,863	20,863	-	-	38,649	38,649
Trade payables	16,563	9,728	-	26,291	8,782	13,022	-	21,804
Other current liabilities	2,159	4,146	3,847	10,152	2,822	6,363	743	9,928
Total current liabilities	**18,722**	**13,874**	**24,710**	**57,306**	**11,604**	**19,385**	**39,392**	**70,381**
Total liabilities	**18,722**	**14,819**	**47,684**	**81,225**	**11,604**	**20,291**	**55,502**	**87,397**
Total shareholders' equity and liabilities	**18,722**	**14,819**	**82,423**	**115,964**	**11,604**	**20,291**	**76,361**	**108,256**

	Financial period ended 31 December					
	2010			2009		
(€ in thousands)	Stringing equipment	Trencher	Consolidated	Stringing equipment	Trencher	Consolidated
Revenues from sales and services	65,065	40,215	105,280	44,484	41,604	86,088
Operating costs net of non-recurring costs and of depreciations and amortisation	(52,348)	(34,338)	(86,686)	(35,301)	(35,041)	(70,342)
adj EBITDA (1)	**12,717**	**5,877**	**18,594**	**9,183**	**6,563**	**15,746**
Non-recurring costs	(2,208)	(1,307)	(3,515)	-	-	-
EBITDA (2)	**10,509**	**4,570**	**15,079**	**9,183**	**6,563**	**15,746**
Amortisation and depreciation	(1,698)	(3,819)	(5,517)	(1,503)	(1,913)	(3,416)
Total operating costs	**(56,254)**	**(39,464)**	**(95,718)**	**(36,804)**	**(36,954)**	**(73,758)**
Operating income	**8,811**	**751**	**9,562**	**7,680**	**4,650**	**12,330**
Financial expenses and share of profit/(loss)			(1,564)			(2,754)
Pre-tax profits			**7,998**			**9,576**
Income taxes			(2,784)			(2,198)
Net profit for the period			**5,214**			**7,378**
Non-controlling interests			(29)			10
Equity holders of the parent			**5,243**			**7,368**

Management monitors the operating income of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on the basis of operating income. The Group financial management (including financial income and charges) and income taxes are managed at Group level and are not allocated to the individual operating segments.

37.Related party transactions

The following schedule gives details of transactions in income statement and balance sheet due from/towards related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders:

	Financial period ended 31 December					31 December				
	2010					2010				
(€ in thousands)	Revenues	Costs of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial expenses and share of profit/loss	Non-current financial assets	Trade receivables	Current financial receivables	Other current assets	Trade payables
Associated companies:										
East Trencher S.r.l.	-	-	(25)	-	-	-	-	-	-	7
Locavert S.A.	130	-	-	-	-	-	30	-	-	-
Sibtechmash	-	-	-	-	-	-	15	-	-	-
Consorzio Stabile Energie Locali S.c.a.r.l.								19		
Subtotal	130	-	(25)	-	-	-	45	19	-	7
Joint ventures:										
Condux Tesmec Inc.	3,267	-	146	-	-	-	1,854	-	-	-
Subtotal	3,267	-	146	-	-	-	1,854	-	-	-
Related parties:										
Ambrosio S.r.l.	-	-	-	(13)	-	-	-	-	-	4
Caterina Caccia Dominioni, Lawyer	-	-	(4)	-	-	-	-	-	-	-
Matteo Caccia Dominioni	-	-	(45)	-	-	-	-	-	-	20
CBF S.r.l.	-	-	-	(378)	1	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	(14)	-	-	-	-	-	-	1
Dream Immobiliare S.r.l.	-	-	-	(311)	-	-	-	205	207	1
Eurofidi S.p.A.	-	-	-	-	-	-	-	2	-	-
FI.IND S.p.A.	-	-	(45)	-	14	-	16	-	-	47
Jaeggli Meccanotessile S.r.l.	-	-	(3)	-	2	-	2	-	-	4
Jaeggli S.p.A.	-	-	-	-	-	-	4	-	-	-
Lame Nautica S.r.l.	9	-	-	-	-	-	4	-	-	-
M.T.S. Officine Meccaniche S.p.A.	939	(1)	(203)	(2)	1	-	606	-	-	-
Reggiani Macchine S.p.A.	-	-	134	(439)	21	-	448	-	220	-
Subtotal	948	(1)	(180)	(1,143)	39	-	1,080	207	427	77
Total	4,345	(1)	(59)	(1,143)	39	-	2,979	226	427	84

In particular, for the financial period ended 31 December 2010, the breakdown of each related party is indicated below:

- East Trenchers: the associated company started its operations at the end of 2010. The subject-matter of its activity will be to hire/service at market prices and market payment terms;

- Locavert: the French associate normally purchases trenchers/spare parts for the rental activity at market prices and market payment terms;

- Condux Tesmec: JV purchases stringing machines and equipment for sale on the American market at market prices and market payment terms;

- Ambrosio: costs for services refer to the rental for the registered office of Milan;

- M.T.S.: revenues refer to sales of semi-finished products for the textile industry made by the Tesmec Workshop of Sirone; costs for services refer to the sharing of administrative personnel and services relevant to the same plant;

- Reggiani Macchine S.p.A.: "Costs for Services" mainly refers to the costs related to users for a total amount of Euro 113 thousand and whose counter-item is recorded in "Trade payables"; "Other operating costs" mainly concerns the cost for the lease of the building of Grassobbio (Euro 436 thousand);

- C.B.F.: "Other operating costs" includes the cost for the lease of the building of Sirone Euro 378 thousand;

- Dream Immobiliare: "Other operating costs" includes the cost for the lease of the building of Endine Euro 309 thousand;

During the 2010 financial period, the financial receivables from related parties as at 31 December 2009 are fully recovered. The following table summarises related party transactions of the prior financial period:

	Financial period ended 31 December					31 December				
	2009					2009				
(€ in thousands)	Revenues	Costs of raw materials	Costs for services	Other operating (costs)/revenues, net	Financial expenses and share of profit/loss	Non-current financial assets	Trade receivables	Current financial receivables	Other current assets	Trade payables
Associated companies:										
East Trencher S.r.l.	-	-	-	-	-	-	-	-	-	-
Locavert S.A.	108	-	-	-	-	-	20	-	-	-
Sibtechmash	-	-	-	-	-	-	14	-	-	-
Subtotal	108	-	-	-	-	-	34	-	-	-
Joint ventures:										
Condux Tesmec Inc.	2,657	-	76	-	-	-	2,391	-	-	-
Subtotal	2,657	-	76	-	-	-	2,391	-	-	-
Related parties:										
Ambrosio S.r.l.	-	-	-	(13)	-	-	-	-	-	4
Caterina Caccia Dominioni, Lawyer	-	-	(22)	-	-	-	-	-	-	-
Matteo Caccia Dominioni	-	-	(49)	-	-	-	-	-	-	16
CBF S.r.l.	-	-	-	(264)	5	-	-	241	-	-
Ceresio Tours S.r.l.	-	-	(18)	-	-	-	-	-	-	7
Dream Immobiliare S.r.l.	-	-	-	(309)	-	-	-	-	-	-
FI.IND S.p.A.	-	-	(31)	-	57	-	-	2,001	-	-
Granilnord S.r.l.	-	-	(83)	-	-	-	-	-	-	-
Jaeggli Meccanotessile S.r.l.	-	-	1	-	7	-	-	302	-	4
Jaeggli S.p.A.	-	-	-	-	-	-	4	-	-	-
Lame Nautica S.r.l.	5	-	-	-	-	-	-	-	-	-
Lame S.r.l. with sole shareholder in liquidation	-	-	(10)	-	-	-	-	-	-	-
M.T.S. Officine Meccaniche S.p.A.	552	-	(444)	5	60	-	106	-	-	40
Nordef S.r.l.	12	-	-	-	8	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	148	(181)	42	1,211	510	430	-	14
Subtotal	569	-	(508)	(762)	179	1,211	620	2,974	-	85
Total	3,334	-	(432)	(762)	179	1,211	3,045	2,974	-	85

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

Year 2010

Board of Directors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Ambrogio Caccia Dominioni	Chairman and Managing Director	450,000	80,000	530,000
Alfredo Brignoli	Vice Chairman	40,000		40,000
Gianluca Bolelli	Vice Chairman	50,000	20,000	70,000
Gianluca Vacchi	Director	12,000		12,000
Gioacchino Attanzio	Director	25,000		25,000
Guido Giuseppe Maria Corbetta	Director	12,000		12,000
Luca Poggi	Director	12,000		12,000
Michele Carlo Felice Milani	Director	50,000	150,000	200,000
Sergio Arnoldi	Director	20,000		20,000
Caterina Caccia Dominioni	Director and Secretary	25,000	3,500	28,500

Board of Statutory Auditors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Simone Cavalli	Chairman	18,781		18,781
Stefano Chirico	Statutory Auditor	20,111		20,111
Sergio Arnoldi	Directors as from 23 February 2010	7,359		7,359
Claudio Melegoni	Statutory Auditor	23,332		23,332

Fees paid to executives with strategic responsibilities in the 2010 financial period amounted to Euro 686 thousand, whereas those paid to other members of the Caccia Dominioni family for the supply of personal services amounted to Euro 49 thousand.

39.Legal disputes

There have not been for the parent company nor its subsidiaries, litigations that may represent significant costs for the Group.

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

Note that, pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, in 2010 the Group did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

41. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2010 and 2009, they are summarised as follows:

	31 December	
(€ in thousands)	2010	2009
Securities	2,892	3,494
Guarantees	25,377	23,135
Third-party assets held by the Group	3,720	1,589
Total commitments and risks	31,989	28,218

Risks

The recorded value concerns sureties provided by Tesmec SpA during the three-year period in favour of third parties granted through the mediation of some financial institutes such as BNL, Unicredit, Banca Intesa and others.
As for the guarantees, they refer to pledges given by Tesmec USA with reference to loans granted during 2010 and 2009 by Southwest Securities and are represented by the value of trade receivables, closing inventories and tangible assets.
On the basis of the specific characteristics of the segments in which the Group 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 Balance Sheet.

Third-party assets held by the Group

During the three-year period, the group signed a series of operating lease contracts relating to presses, cranes, towers and similar industrial facilities.

42.Reporting pursuant to Article 149 duodecies of Consob Issuer Regulation

The following table shows the fees charged for the 2010 financial period for auditing services and for services other than audit rendered by the Independent Auditors.

	Independent Auditors that supplied the service	Accrued amount
(€ in thousands)		2010
Audit of the financial statements and consolidated financial statements	Reconta Ernst & Young S.p.A.	100
Certification services [1]	Reconta Ernst & Young S.p.A.	5
Other services [2]	Reconta Ernst & Young S.p.A.	755
Total		860

(1) This item refers to activities aimed at the signing of tax returns.
(2) This item refers to services of IPO (comprehensive review of IFRS consolidated financial statements at 31 dicemre 2007,2008 and 2009, emissions Dawn Bring Comfort Letter Letter on 'Offering Memorandum and the Prospectus and the Memorandum on certification of management control).

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

Significant events occurred after the close of the financial period are indicated below:

- On 18 January 2011, Tesmec S.p.A. acquired the share held by Mela Verde in the Tesmec Beta AD company, becoming the sole shareholder. On the same day, following the Shareholders' Meeting regularly convened, it changed its name in Tesmec Balkani EOD.
- on 31 January 2011 TESMEC dissolved the previous contract for the rental of the property of Grassobbio with Italease Gestioni spa and signed with Dream Immobiliare (related party) the new contract with a period of validity until 31 January 2025. The renewal of this contract implied for the Company an immediate 12% cost saving. In connection with the Lease contract, Tesmec signed with Dream Immobiliare an option contract for the purchase of the Leasing contract (the Option Contract assigns Tesmec the right to take over the Lease contract against an initial consideration already paid of Euro 2,700,000. This value may be increased according to the period within which the Company will exercise the option valid until 31 December 2016.

  Even if the operation is not legally qualifiable as acquisition, in view of the fact that such Lease contract belongs to the case provided by IAS 17, it will be represented as a leasing in the financial statements, as from the 2011 financial period, and therefore it will contemplate the registration of the value of the Industrial Complex - for the part of its area covered by the Company and subject-matter of the said Lease contract - in the consolidated and separate financial statements of TESMEC based on the present value of future payments due (equal to Euro 22.5 million), with the corresponding entry of its financial debt. This recording will improve the EBITDA (as defined above) by around Euro 2 millions and have a positive effect on the net income of around Euro 0.2 million.
- on 4 March 2011, an agreement for a syndicated loan was closed successfully totalling Euro 21 million, organised by BNL-BNP PARIBAS Group, as arranger and lender with the participation of Popolare di Milano, Intesa Sanpaolo spa, Unicredit, GE Capital Interbanca and Banca Popolare di Vicenza as lenders. The aim of the signed contract is to both refinance part of the existing debt (in particular, with reference to the debt existing in the Tesmec USA

subsidiary) and raise capital in view of new investments as well as to support the development and growth of the Group.

- on 7 March 2011 a joint-venture contract was signed with TME, already exclusive concessionaire - for a few years - of the trenchers of the Tesmec Group on the market of Qatar.

  The NewCo was called Tesmec Peninsula and will be 49% held by Tesmec S.p.A. and 51% by the local shareholder (in particular 49% TME and 2% directly by Hamid Mustafawi. The Mustafawi family operates in the building industry via the QBC company). The joint-venture was created in order to have a direct presence on a particularly strategic market such as the Middle-East market, and will focus on the marketing activities of the trenchers of the Tesmec Group in the Arabic peninsula – with the exception of Qatar that will be directly followed by the TME partner – in addition to the acquisition of new service contracts related to the excavation works in all the Arabic peninsula.

Certificate of the Consolidated financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999 with further supplements and amendments

1. The undersigned Ambrogio Caccia Dominioni and Andrea Bramani, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial statements, respectively, attest, considering also what is provided under Article 154-bis, sub-sections 3 and 4, of Italian Legislative Decree no. 58 of 24 February, 1998:

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

    of the administrative and accounting procedures for preparing the consolidated financial statements during the 2010 financial period.

2. We also attest that:

2.1 the consolidated financial statements as at 31 December 2010:

- have been prepared in accordance with IFRS as endorsed by the European Union, as provided by the EC Regulation No. 1606/2002 issued by the European Parliament and by the European Council on 19 July 2002.
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash-flow of the Company and its consolidated subsidiaries.

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 the consolidated companies, together with a description of the main risks and uncertainties they incur.

Grassobbio, 14 March 2011

Dott. Ambrogio Caccia Dominioni Chief Executive Officer	Dott. Andrea Bramani Manager responsible for preparing the Company's financial statements

INDIPENDENT AUDITOR'S REPORT

ERNST & YOUNG

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Tesmec S.p.A.

1. We have audited the consolidated financial statements of Tesmec S.p.A. and its subsidiaries, (the "Tesmec Group") as of and for the year ended December 31, 2010, comprising the consolidated statement of financial position, income, comprehensive income, the statement of changes in equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Tesmec S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated February 22, 2010.

3. In our opinion, the consolidated financial statements of the Tesmec Group at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Tesmec Group for the year then ended.

4. The management of Tesmec S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and Ownership Structure , are consistent with the consolidated financial statements of the Tesmec Group as of December 31, 2010.

Milan, March 29, 2011

Reconta Ernst & Young S.p.A.
Signed by: Paolo Zocchi, Partner

FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

(Euro)	Notes	31 December 2010	2009
NON-CURRENT ASSETS			
Intangible assets	4	6,121,527	5,079,005
Property, plant and equipment	5	9,460,299	10,219,055
Equity investments in subsidiaries	6	14,335,974	4,443,066
Equity investments in associates	6	1,157,599	1,151,198
Other equity investments	7	2,288	2,288
Financial receivables and other non-current financial assets	8	3,212	1,214,099
of which with subsidiaries, associates, related parties and joint ventures:		-	*1,211,421*
Derivative financial instruments	18	130,653	-
Deferred tax assets	25	3,507,745	2,490,022
TOTAL NON-CURRENT ASSETS		34,719,297	24,598,733
CURRENT ASSETS			
Inventories	9	28,047,017	25,141,262
Trade receivables	10	32,296,442	26,527,422
of which with subsidiaries, associates, related parties and joint ventures:		*3,856,953*	*3,225,258*
Tax receivables	11	55,882	1,068,065
Available-for-sale securities	12	100,558	113,854
Financial receivables and other current financial assets	13	461,790	6,654,000
of which with subsidiaries, associates, related parties and joint ventures:		*384,514*	*6,444,741*
Other current assets	14	1,315,744	3,107,153
of which with subsidiaries, associates, related parties and joint ventures:		*427,039*	-
Cash and cash equivalents	15	7,429,484	1,353,960
TOTAL CURRENT ASSETS		69,706,917	63,965,716
TOTAL ASSETS		104,426,214	88,564,449
SHAREHOLDERS' EQUITY			
Share capital	16	10,708,400	9,058,400
Reserves	16	15,172,720	3,269,773
Profit (loss) for the period	16	6,551,674	6,123.090
TOTAL SHAREHOLDERS' EQUITY		32,432,794	18,451,263
NON-CURRENT LIABILITIES			
Interest bearing financial payables	17	19,669,097	11,753,673
Derivative financial instruments	18	33,514	212,000
Employee benefit liability	19	2,967,875	3,210,557
Deferred tax liabilities	25	303,899	840,440
TOTAL NON-CURRENT LIABILITIES		22,974,385	16,016,670
CURRENT LIABILITIES			
Interest bearing financial payables (current portion)	20	12,127,856	29,223,019
Amounts due to subsidiaries	*20*	2,207,741	-
Derivative financial instruments	18	90,223	-
Trade payables	21	25,025,725	17,751,091
of which with subsidiaries, associates, related parties and joint ventures:		*1,547,929*	*237,223*
Advances from customers		2,069,247	2,829,038
Income taxes payable	22	3,846,525	1,707,985
Provisions for risks and charges	23	778,420	600,000
Other current liabilities	24	2,873,298	1,985,383
TOTAL CURRENT LIABILITIES		49,019,035	54,096,516
TOTAL LIABILITIES		71,993,420	70,113,186
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		104,426,214	88,564,449

Income statement

(Euro)	Notes	Financial period ended 31 December 2010	2009
Revenues from sales and services	26	102,121,236	79,515,130
of which with subsidiaries, associates, related parties and joint ventures:		*5,804,311*	*6,609,614*
Cost of raw materials and consumables	27	(48,479,430)	(37,166,630)
of which with subsidiaries, associates, related parties and joint ventures:		*(5,628,260)*	*(2,905,400)*
Recurring costs for services	28	(19,553,756)	(15,213,455)
of which with subsidiaries, associates, related parties and joint ventures:		*(281,484)*	*(564,923)*
Non-recurring costs for services	*28*	*(3,442,507)*	-
Payroll costs	29	(14,359,503)	(12,531,672)
Other operating (costs)/revenues, net	30	(3,826,072)	(3,496,514)
of which with subsidiaries, associates, related parties and joint ventures:		*(1,145,810)*	*(832,485)*
Amortization and depreciation	31	(4,419,426)	(2,787,369)
Development costs capitalised	32	3,050,054	2,789,306
Total operating costs		(91,030,640)	(68,406,333)
Operating income		11,090,596	11,108,797
Financial expenses	33	(3,024,217)	(2,649,804)
of which with subsidiaries, associates, related parties and joint ventures:		*(229,875)*	-
Financial income	34	1,752,714	448,800
of which with subsidiaries, associates, related parties and joint ventures:		*43,201*	*282,638*
Pre-tax profits		9,819,093	8,907,792
Income taxes	25	(3,267,419)	(2,784,702)
Net profit for the period		6,551,674	6,123,090

Comprehensive income statement

	Financial period ended 31 December	
(Euro)	2010	2009
NET PROFIT FOR THE PERIOD	6,551,674	6,123,090
Other components of comprehensive income:	-	-
Total other income/(losses) net of taxation	-	-
Total comprehensive income (loss) net of taxation	6,551,674	6,123,090

Cash flow statement

(Euro)	Notes	Financial period ended 31 December 2010	2009
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit for the period		6,551,674	6,123,090
Adjustments to reconcile net income for the period to the cash flows generated by (used in) operating activities:			
Amortization and depreciation	31	4,419,426	2,787,369
Provisions for employee benefits	19	168,000	104,000
Provisions for risks and charges / inventory obsolescence / doubtful accounts		213,420	55,000
Employee benefit payments	19	(410,682)	(237,424)
Net change in deferred tax assets and liabilities	25	(1,554,264)	1,179,094
Change in fair value of financial instruments	18	(218,916)	2,000
Change in current assets and liabilities:			
Trade receivables	10	(6,528,811)	(2,081,646)
Inventories	9	(2,905,755)	4,314,036
Trade payables	21	7,274,634	(4,273,565)
Other current assets and liabilities		5,830,047	1,712,962
NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A)		**12,838,773**	**9,684,916**
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditures in property, plant and equipment	5	(1,281,670)	(6,917,139)
Investments in intangible assets	6	(3,856,522)	(3,034,346)
Investments /(disposal) of financial assets		(2,482,916)	(2,430,331)
Proceeds from sale of property, plant and equipment and intangible	5-6	435,000	1,256,527
NET CASH FLOW (USED IN) INVESTING ACTIVITIES (B)		**(7,186,108)**	**(11,125,289)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Long-term loans received	17	15,659,424	4,029,673
Repayment of long-term loans	17	(4,115,000)	(1,145,000)
Net change in short-term financial debt	17	(18,551,422)	532,285
Dividend distribution	16	(2,581,644)	(1,992,848)
Capital injection for share capital increase	16	10,011,501	-
NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**422,859**	**1,424,110**
TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C)		**6,075,524**	**(16,263)**
EFFECT OF EXCHANGE-RATE CHANGES ON CASH AND CASH EQUIVALENTS (E)		-	-
CHANGES IN CASH		-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	15	1,353,960	1,370,223
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)	15	**7,429,484**	**1,353,960**
Others informations:			
Interests payed		163,038	1,194,100
Income taxes payed		1,252,749	710,543

Statement of changes in shareholders' equity

(Euro)	Share capital	Legal reserve	Share premium reserve	Statutory reserve	Other reserves	Net income for the period	Total shareholders' equity
Balance as at 1 January 2009	9,058,400	389,507	2,553,600	294,819	(2,530,241)	4,554,936	14,321,021
Net income for the period	-	-	-	-	-	6,123,090	6,123,090
Other income (loss)	-	-	-	-	-	-	-
Allocation of net income for the period	-	227,746	-	-	2,334,342	(2,562,088)	-
Dividend distribution	-	-	-	-	-	(1,992,848)	(1,992,848)
Balance as at 31 December 2009	9,058,400	617,253	2,553,600	294,819	(195,899)	6,123,090	18,451,263
Net income for the period	-	-	-	-	-	6,551,674	6,551,674
Share capital increase	1,650,000	-	8,361,501	-	-	-	10,011,501
Other income (loss)	-	-	-	-	2,489,988	(2,490,988)	-
Allocation of net income for the period	-	181,655	-	-	869,803	(1,051,458)	-
Dividend distribution	-	-	-	-		(2,581,644)	(2,581,644)
Other changes	-	-	-	(294,819)	294,819	-	-
Balance as at 31 December 2010	10,708,400	798,908	10,915,101	-	3,458,711	6,551,674	32,432,794

Explanatory Notes

Accounting policies adopted in preparing the financial statements as at 31 December 2010

1.Company information

The Tesmec S.p.A. parent company (hereinafter "Parent Company" or "Tesmec") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Company is in Milan in Piazza S. Ambrogio no. 16.
The publication of Tesmec's financial statements for the period ended 31 December 2010 was authorised by means of the resolution of the Board of Directors on 14 March 2011.

2.Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2010 comprise the statement of financial position, income statement, statement of comprehensive income, cash-flow statement, statement of changes in shareholders' equity and the related explanatory notes. These financial statements are the first financial statements 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 2010. These IFRS principles also include all revised international accounting standards ("IAS") and all of the interpretations of the International Financial Reporting Interpretation Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").
The date of transition to IAS/IFRS is 1 January 2009. The effects of transition to IAS/IFRS are shown in note nr. 41.
This enclosure also contains the following reconciliation statements accompanied by the relevant explanatory notes:

1) Reconciliation of shareholders' equity for the following dates:
- date of transition to IAS/IFRS (1 January 2009);
- end of the last reporting period in which the financial statements were prepared in accordance with the Italian accounting standards (31 December 2009).

2) Reconciliation of the profit and loss result for:
- end of the last reporting period in which the financial statements were prepared in accordance with the Italian accounting standards (31 December 2009).

The balance sheet as at 1 January 2009 and the balance sheet and income statement as at 31 December 2009, reconciled with their figures prepared with the previous accounting standards.

The financial statements and relevant explanatory notes are presented in Euro and all values are rounded to the nearest thousand, unless otherwise indicated.

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, statement of changes in shareholders' equity as well as the method used for representing the financial flows in the statement of cash-flows compared to those specified in IAS 7.
In the income statement, it was decided to present a cost analysis by using a classification based on their nature.
In the statement of financial position, it was decided to represent current and non-current assets and current and non-current liabilities classified separately, in accordance with IAS 1.
The statement of changes in shareholders' equity occurred during the period are represented through a table that reconciles the opening and closing balances of each item of the shareholders' equity of the Company.
The statement of cash flows represents the financial flows by dividing them into operating, investing and financing activities. In particular, financial flows from operating activities are represented, in accordance with IAS 7, using the indirect method, whereby net profit or loss for the year is adjusted by the effects of non-monetary transactions, by any deferral or provision of prior or future operating receipts or payments, and by revenue or cost elements connected with financial flows from investing or financing activities.
Finally, 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 not reported under specific sub-items, in case of significant amounts, in the statement of financial position, income statement and statement of cash flows.

2.2 Accounting policies

General Notes

The financial statements have been prepared in accordance with the historical cost principle, with the exception of the derivative financial instruments and financial assets held for sale stated at fair value.
There are no financial assets held to maturity. Financial transactions are accounted for as of the date they are traded.
The accounting policies adopted in the Financial Statements as at 31 December 2010 were applied in the same way also to all the periods of comparison.

Discretionary assessment and significant accounting estimates

The preparation of the financial statements of the Parent Company requires the directors to carry out discretionary assessments, estimates and assumptions that affect the values of revenues, costs, assets and liabilities and the indication of contingent liabilities at the end of the reporting period. The final results may differ from said estimates. Estimates are used for recognising:
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 - Severance Indemnity
Provision for severance indemnity is determined by using actuarial evaluations. The actuarial evaluation requires assumptions on discount rates, future increases in salary, turnover and death rates. Since these are long-term plans, such estimates are subject to a significant level of uncertainty. Net liability towards the employees for severance indemnity as at 31 December 2010 amounts to Euro 2,968 thousand.
Development costs
Development costs are capitalised on the basis of the accounting standard explained below. The directors must make assumptions on future cash flows expected from fixed assets, discount rates to be applied and the periods during which the expected benefits reveal themselves in order to determine the values to be capitalised. As at 31 December 2010, capitalised development costs amounted to Euro 3.050 thousand,. Moreover, estimates are used for recognising provisions for bad debts, product guarantees, provisions for risks and charges, inventory obsolescence, amortization, depreciation and write-downs of assets, fair value of derivative financial instruments.
Estimates and assumptions are periodically revised and the effects of each change are immediately reflected in the income statement.

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 produced internally are not capitalised and are recognised in the income statement of the financial period in which they were borne.
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 amortization and treated as changes in accounting estimates. Amortization charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.
Intangible assets with indefinite lives are tested annually for impairment losses on an individual basis or in terms of cash-generating unit.
Profits or losses deriving from the disposal of an intangible asset are measured as the difference between the net income and the book value of the asset and are recognised in the income statement upon disposal.
The estimate of the useful life of intangible assets with definite lives is set below:

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

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

Rights and trademarks
This item refers to the purchase of know-how for the production of Gallmac excavating machines and to the Gallmac trademark. 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 5 years.

Property, plant and equipment

Property, plant and equipment acquired separately 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 machinery and plants when they are borne, if complying with the recognition criteria.
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
Plant and equipment	10
Fixtures and fittings, tools and equipment	4
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 book value of property, plant and equipment is subject to an impairment test when events or changed circumstances indicate that the book value cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the estimated realisable value, assets are written down so as to reflect their realisable value. The realisable value of property, plant and equipment is represented by the net sales price and the usage value, whichever is higher.
When defining the usage value, the expected future financial flows are discounted back using a pre-tax discount rate that reflects the current market estimate of the cost of money placed in relation to the timescale and specific risks of the asset. In relation to assets that do not generate fully independent financial flows, the realisable value is determined in relation to the financial-flow generating unit to which the asset belongs. Impairment losses are recorded in the income statement

among costs for amortization, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.
At the time of sale or when there are no future economic benefits, expected from the use of an asset, it is written off from the financial statements and any loss or profit (calculated as the difference between the transfer value and the book value) is posted to the income statement in the year of the aforesaid writing off.

Leases
Contracts with the Company as lessee
Financial lease contracts, which substantially transfer to the Company all the risks and benefits deriving from the ownership of the leased asset, are capitalised on the starting date of the lease at fair value of the leased asset or at present value of the lease payments, if lower. Lease payments are prorated between principal and interests in order to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are posted directly to the income statement.
Capitalised leased assets are amortised during the period of time of the estimated useful life of the asset or the period of validity of the lease contract, whichever is shorter, if the reasonable certainty that the Company will obtain the ownership of the asset at the end of the contract does not exist.
The leases in which the lessor retains substantially all the risks and benefits related to the ownership of the assets are classified as operating leases and the related costs are recorded in the income statement over the period of validity of the contract.
Contracts with the Company as lessor
If the Company signs lease contracts that substantially transfer to the customers al the risks and benefits deriving from the ownership of the leased asset, the revenues concerning the transfer of the asset are recorded in the financial statements and are capitalised on the starting date of the lease at the fair value of the leased asset or at the present value of the lease payments, if lower. Moreover, a borrowing that corresponds to the present value of the lease payments still due is recorded in the balance sheet. Financial expenses are posted directly to the income statement.

Impairment of assets

At the end of each reporting period, the Company considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.
The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets of groups of assets, in which case the Parent Company estimates the recoverable value of the cash-flow generating unit to which the asset belongs.
When determining the usage value, the Company discounts back the present value of future estimated financial flows, by using a pre-tax discount rate that reflects the market evaluations on the time value of money and specific risks of the asset.
In order to estimate the usage value, the future financial flows are derived from the business plans approved by the Board of Directors, which represent the best estimate made by the Company on the economic conditions laid down in the plan period. The projections of the plan cover normally a period of three financial periods; the long-term growth rate used in order to estimate the terminal value of the asset or of the unit is normally lower than the average long-term growth rate of the segment, country or market of reference. Future financial flows are estimated by referring to the current conditions: therefore, estimates do not consider benefits deriving from future restructuring for which the Company has not yet committed itself or future investments for improving or optimising the asset or the unit.
If the book value of an asset or financial-flow generating unit is greater than its recoverable value, this asset was impaired and consequently amortised until its recoverable value is reached.
Impairment losses incurred by operating assets are recognised in the income statement in the categories of cost consistent with the function of the asset that showed the impairment loss. At the end of each reporting period, the Company also considers the possible existence of elements indicating a decrease in impairment losses previously recognised and, if these indicators exist, it estimates the recoverable value again. The value of an asset previously written down can be restored only if there were changes in the estimates used for determining the recoverable value of the asset after the last recognition of an impairment loss. In this case, the book value of the asset is set to the recoverable value, however without the possibility for the value thus increased to exceed the book value that would have been determined, net of amortization, 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 amortization rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance

with IAS 27. The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.
When there is an indication that the equity investment may have suffered an impairment, its recoverable value is estimated, in accordance with the method specified in IAS 36 "Impairment of assets", in order to determine the eventual loss to be posted to the income statement.

Financial assets and other non-current assets

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

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.

Trade receivables and other current assets

Trade receivables and 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. Moreover, trade receivables are adjusted to their estimated realisable value by entering a special adjustment provision.
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 is attributed to the income statement.
If the maturity of the trade receivables and of the other current assets do not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.
The Parent 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 benefits related to their legal ownership were substantially transferred to the assignee.
The operations of factoring without recourse of the Company include deferred payment clauses (for example, the payment by the factor of a small part of the purchase price is subject to the total collection of the receivable), require an exemption by the assignor or imply the maintenance of an exposure to the trend of the assigned receivable. This type of operation does not always observe the requirements of IAS 39 for the writing off of the asset from the balance sheet, since their risks and benefits have not been substantially transferred. As a result, if the receivables assigned without recourse do not fulfil the conditions of the aforesaid requirement, they remain recorded in the financial statements of the Company, even though they have been assigned legally; and a financial liability of an equal amount is recorded under liabilities for the advance received.

Other receivables and other financial assets

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

- the rights to receive financial flows from the asset terminated;
- the Company retains the right to receive cash flows from the asset, but has taken on the contractual obligation to pay them fully and without delay to a third party
- the Company transferred the right to receive financial flows from the asset and (a) transferred substantially all the risks and benefits of the ownership of the financial asset or (b) did not transfer substantially all the risks and benefits of the asset, but transferred their control.

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

value (including the cash-settled options or with similar provisions), the measure of the residual involvement of the Company is limited to the fair value of the transferred asset or the exercise price of the option, whichever lower.

Cash and cash equivalents

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

Loans

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

Trade payables and other payables

Payables are measured at nominal value.
Given the granted terms of payment, when a financial operation is configured, payables measured with the amortised cost approach are submitted to the discounting back of the nominal value to be paid, recording the discount as a financial charge
Payables in foreign currency are aligned with the exchange rate at the end of the financial period and profits or losses deriving from the adjustment are posted to the income statement in the item where the operation was originally recognised.

Provisions for risks and charges

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

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 Italian TFR matter as described from the Italian legislation and concluded that, in accordance with IAS 19, it must be calculated according to a method called Projected Unit Credit Method (the so-called PUCM) in which the amount of the liability for the acquired benefits must reflect the expected resignation date and must be discounted back.
The Company's net liability deriving from defined benefit plans is calculated separately for each plan by estimating the amount of the future benefit that the employees acquired in exchange for the work carried out in the current financial period and in prior financial periods; this benefit is discounted back to calculate the present value. Actuarial gains and losses related to defined benefit plans, accumulated up to the prior financial period and reflecting the effects deriving from changes in the actuarial assumptions used, are recorded in full in the income statement.
The actuarial evaluation of liabilities was entrusted to an independent actuary.
The Company has no other defined benefit pension plan.

Government grants

Government grants are recognised in the financial statements when there exists a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the

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

Financial derivatives instruments

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

- Financial assets at fair value through profit or loss
- Investments held to maturity
- Loans and receivables
- Available-for-sale financial assets
- With reference to financial liabilities, only two categories are established:
- Financial liabilities at fair value through profit or loss
- Liabilities at amortised cost

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

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

Derivative instruments

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

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

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

Revenues and costs

Revenues and costs are stated on an accrual basis. Revenues and income, presented net of returns, discounts, allowances and premiums, are recorded at fair value insofar as it is possible to reliably determine such value and its economic benefits are likely to be enjoyed.

Revenues from the sale of goods are recognised when all the following conditions are met:

- significant risks and benefits related to the ownership of the goods were transferred to the purchaser;
- the usual ongoing activities associated with the ownership of the goods are no longer carried out, and the actual control of the sold goods is no longer exercised;
- the amount of revenues can be reliably determined;
- the future economic benefits are likely to be enjoyed;
- the costs borne, or to be borne, can be reliably estimated.

More specifically, with reference to sales with CIF condition, risks and benefits related to the ownership of the asset are transferred to the end customer, and therefore the revenues are recognised, when the asset is handed over to the carrier, if the customer has already borne the insurance cost.
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 Appendix 1 of IAS 18 have been complied with:

- the machine has been completed and is available to be shipped to the customer;
- the customer indicated in writing, at a date before the date of invoicing, its own irrevocable intent to purchase the asset; moreover, this condition implies that the customer shall bear the insurance cost for the periods during which it is still available at the warehouse of the company and relevant transport; therefore, it is reasonable for the sale to be carried out;
- the customer gave clear and precise indications on the delivery of the machine;
- standard payment terms are applied to the 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, risks and benefits are transferred, and therefore the revenues are recognised, when the machine has been tested and the purchaser has accepted.
Revenues from services rendered are recognised when all the following conditions are met:

- the amount of the revenue can be measured reliably.
- it is likely that the economic benefits deriving from the operation will flow to the company;
- the completion stage of the operation at the end of the reporting period may be reliably measured;
- costs incurred for the operation and costs to be borne in order to complete it may be reliably calculated.

In particular, Tesmec S.p.A.provides services that contemplate an excavation activity carried out by using machines belonging to the company and specialised workers employed by third-party companies. The provision of these services is contractually regulated by agreements with the counterpart that indicate, among other things, the timing for carrying out the excavation and contemplate a price per excavated metre that changes according to different hardness of the soil. Revenues are recognised on the basis of the progress of the excavation to date, as resulting from the states of the work-in-progress recognised and agreed with the counterpart.
Moreover, Tesmec S.p.A. provides after-sales services concerning the machines sold. If these services are requested after the expiry of the guarantee period, the service is contractually regulated by agreements with the counterpart. Revenues are recognised based on the time and components used by the technicians during repair operations.

Financial income and expenses

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

Determining the fair value of financial instruments

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

Dividends

Dividends are recorded when the right of the shareholders to receive the payment arises, coinciding with the time in which they are decided. Dividends from other companies are classified in the income statement among other operating costs/revenues, since they concern equity investments of segments in which the Company operates consisting in a long-term investment. Dividends from other companies held only as a financial investment are classified among financial income.

Income taxes

Current taxation

Current income taxes are recorded on the basis of the estimated taxable income in accordance with the provisions in force, taking into account the applicable exemptions and the tax receivables due.

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 also excludes items that will never be taxable or deductible. Current tax liabilities are calculated by using the rates in force or substantially approved at the end of the reporting period.

Current tax liabilities are recorded in the balance sheet net of any paid tax advances.

Deferred taxes

Deferred taxes are calculated on the temporary differences resulting at the end of the reporting period among the tax values used as a reference for assets and liabilities and the values indicated in the financial statements.

Deferred tax assets are recognised for all the temporary deductible differences and for retained tax assets and liabilities, insofar as the existence of appropriate future tax profits that can apply the use of the temporary deductible differences and of the retained tax assets and liabilities is likely.

The value to be stated in the financial statements for deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient income for tax purposes will be available in the future for this tax credit to be used totally or partially. Deferred tax assets not recognised are reviewed every year at the end of the reporting period and are recognised to the extent that the pre-tax profit is probably sufficient to allow the recovery of these deferred tax assets.

Deferred tax assets and liabilities are measured based on tax rates that are expected to be applied to the financial period in which such assets are sold or such liabilities are discharged, considering the rates in force and those already issued or substantially issued at the end of the reporting period.

Deferred tax assets and liabilities are recognised directly in the income statement, with the exception of those relating to items recognised directly in equity, in which case the related deferred taxes are also accounted for consistently without booking to the income statement.

Deferred tax assets and liabilities are offset, if there is a legal right to offset current tax assets against current tax liabilities, and the deferred taxes refer to the same tax entity and to the same tax authority.

Assets for deferred tax assets and liabilities for deferred tax liabilities are classified as non-current assets and liabilities.

Value added tax

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

- such tax applied to the purchase of goods and services is non deduct able, in which case it is recognised as part of the purchase cost of the asset or part of the cost item recognised in the income statement;
- they refer to trade receivables and payables for which the invoice has already been issued or received and they are stated by including the value of the tax.

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

Earnings per share

The basic earnings per share are calculated by dividing the Company'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.

Changes and new principles and interpretations

The accounting principles adopted are consistent with those used for the prior financial period, with the exception of the following IFRIC standards and interpretations, new and revised, in force as from 1 January 2010:
IFRS 2 *Share-based payments: group operations with cash-settled share-based payment*. In force since 1 January 2010
IFRS 3 *Business combinations (Revised) and IAS 27 Consolidated and separate financial statements* (Amended) in force since 1 July 2009 including the amendments ensuing from: IFRS 2, IFRS 5, IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
IAS 39 *Financial Instruments: recognition and measurement, eligible hedged items in force since 1 July 2009*
IFRIC 17 *Distributions of non-cash assets to owners*
Improvements to the IFRS (May 2008)
Improvements to the IFRS (April 2009)

The adoption of standards and interpretations is described below:

IFRS 2 Share-based payments (Revised)

The IASB issued an amendment to IFRS 2 that explains the purpose and recording of group transactions with cash-settled share-based payments. The Company has adopted this amendment since 1 January 2010 but this did not have any impact on the financial position or on the performance of the Group since there are no share-based payments.

IFRS 3 Business combinations (Revised) and IAS 27 Consolidated and separate financial statements (Amended)

The IFRS 3 (Revised) introduces significant changes in the recording of business combinations. Changes concern the measurement of non-controlling interests, the recording of transaction costs, initial recognition and the subsequent measurement of any contingent consideration and step business combinations.
IAS 27 (Revised) requires for a change in the ownership structure of a subsidiary (while control is retained) to be accounted for as an equity transaction with owners. Therefore, these transactions shall no longer produce goodwill, gain or loss. Moreover, the amended principle introduces changes concerning the recording of losses recognised by the subsidiary and of the loss of control of the subsidiary. Changes introduced by IFRS 3 (Revised) and by IAS 27 (Revised) concern acquisitions or loss of control of a subsidiary and transactions with minority interests.
The change in the accounting principles was applied prospectively and did not produce effects on earnings per share.

Amendments to IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation

On 14 February 2008, the International Accounting Standards Board (IASB) published Amendments to the international accounting standard IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable financial instruments and obligations arising on liquidation. Amendments impose to classify as capital certain instruments issued by companies and currently classified as a liability despite having characteristics similar to ordinary shares. Disclosures are required concerning such instruments and it would be appropriate to apply new rules to their reclassification.
The change in the accounting principles was applied prospectively and did not produce effects on earnings per share.

IAS 39 Financial Instruments: recognition and measurement, eligible hedged items

The amendment states that an entity is permitted to designate a portion of the changes in fair value or cash flows of a financial instrument as the hedged item. The amendment also includes the designation of inflation as a hedged risk or portion of risk in particular situations. Tesmec S.p.A. has concluded that this amendment will have no impact on the financial position or performance of the Company, since it does not use similar hedging items.

IFRIC 12 Service concession arrangements

IFRIC 12 is an interpretation that explains how to apply provisions of International Reporting Financial Standards (IFRS) to service concession arrangements. In particular, IFRIC 12 shows how to account for the undertaken obligations and the rights received by a service concession operator distinguishing among intangible model, financial model and mixed model depending on the level of uncertainty to which the service concession operator is exposed for what concerns cash flows deriving from the carrying out of the concession as well as of the obligations undertaken on the use of the infrastructure for the provision of the service. Tesmec S.p.A. came to the conclusion that this change will have no impact on the Company's financial position or on the Company's performance.

IFRIC 15 Agreements for the construction of real estate

On 3 July 2008, the International Financial Reporting Interpretations Committee (IFRIC) published interpretation IFRIC 15 Agreements for the construction of real estate (hereinafter «IFRIC 15»). IFRIC 15 provides clarifications and guidance on when the revenues from the construction of real estate must be recognised and in relation to the application of IAS 11 Construction Contracts or of IAS 18 Revenue to an agreement for the construction of real estate. Tesmec S.p.A. came to the conclusion that this change will have no impact on the Company's financial position or on the Company's performance.

IFRIC 16 Hedges of a net investment in a foreign operation

On 3 July 2008, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 16 Hedges of a net investment in a foreign operation. IFRIC 16 is an interpretation that clarifies the rules for the application of the requirements of international accounting standards IAS 21 and IAS 39 if an entity hedges the exchange-rate risk arising from its net investment in foreign operations. Tesmec S.p.A. came to the conclusion that this change will have no impact on the Company's financial position or on the Company's performance.

IFRIC 17 Distributions of non-cash assets to owners

This interpretation provides guidance on the recording of agreements according to which an entity distributes to owners non-cash assets such as distribution of reserves or dividends. This amendment did not have any impact on the financial position or performance of the Company.

Improvements to the IFRS

In May 2008 and in April 2009, IASB issued a series of improvements to the principles, mainly with a view to mainly eliminating inconsistencies and explaining the terminology. Each standard has ad hoc transitional clauses. The adoption of the following amendments results in changes in accounting policies with no impact on the financial position or results of the Company.

Issued in May 2008

- IFRS 5 Non-current assets held for sale and discontinued operations clarifies that when a subsidiary is classified as held for sale, all of its assets and liabilities are classified as assets held for sale, even if the company after the sale will represent a minority interest. The amendment was applied prospectively and with no impact on the financial position or results of the Company.

Issued in April 2009

- IFRS 5 Non-current assets held for sale and discontinued operations clarifies that the disclosures requested in relation to non-current assets, and to disposal groups classified as held for sale or related to discontinued operations, are those requested by IFRS 5.
- The disclosure requested by other IFRS applies only if specifically requested with reference to these types of non-current assets or discontinued operations.
- IFRS 8 Operating segments explains that assets and liabilities of the operating segment need be presented only if part of the financial report used by the senior operating decision maker.
- Since the senior operating decision-maker of the Company revises the assets and liabilities by segment, the Company continued to provide this information in Note 8.
- IAS 7 Statement of Cash flows states that only the expenditure that results in the recognition of an asset can be classified as a financial flow from investing activities. This amendment has not led to substantial changes in the presentation of the Cash-flow Statement of the Company.
- IAS 36 Impairment of assets the amendment clarifies that the largest identifiable unit (cash-flow generating unit) for the purposes of allocation of the goodwill acquired in a business combination, is the operating sector as defined by IFRS 8 before the combination for reporting purposes. The amendment did not affect the Company.

Other amendments related to improvements to the IFRS to the following principles that did not affect the accounting policies, the financial position or the performance of the Company are listed below:

Issued in April 2009

- IFRS 2 Share-based payments
- IAS 1 Presentation of financial statements
- IAS 17 Leases
- IAS 34 Interim financial reporting
- IAS 38 Intangible assets
- IAS 39 Financial Instruments: Recognition and measurement
- IFRIC 9 Reassessment of embedded derivatives

Forthcoming accounting principles

The list of the forthcoming principles and the estimate of the potential impacts on the financial statements is set below:

IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction

On 15 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published some amendments to IFRIC 14 the limit on a defined benefit asset, minimum funding requirements and their interaction. The objective of the amendments to IFRIC 14 is to eliminate an unwanted consequence of IFRIC 14 if the entity subject to a minimum contribution makes a prepayment of contributions for which under certain circumstances the entity making such prepayment would be obliged to account for an expense. If a defined benefit plan is subject to a minimum contribution, the amendment to IFRIC 14 requires to treat this prepayment as an asset, like any other prepayment

IFRIC 19: Extinguishing financial liabilities with equity instruments

On 26 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 19 Extinguishing financial liabilities with equity instruments, whose purpose is to provide guidelines on the recording by the debtor of the equity instruments issued for extinguishing all or part of a financial liability following the renegotiation of the relevant conditions. The companies apply IFRIC 19 and the amendment to IFRS 1 at the latest as from the starting date of their first financial period that begins after 30 June 2010.

IAS 24: Related Party Disclosures

On 4 November 2009, the International Accounting Standards Board (IASB) published the revision of the International Accounting Standard (IAS) 24 — Related Party Disclosures». The amendments introduced with the revision of IAS 24 simplify the definition of «related party» while eliminating some inconsistencies and exempt public bodies from some disclosure requirements relating to transactions with related parties. The companies apply IAS 24 and the amendments to IFRS 8 at the latest as from the starting date of their first financial period that begins after 31 December 2010.

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 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 three-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 interest-rate risk

Interest-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 Swap, Collar and Cap are used when managing such a risk.

As at 31 December 2010, there were three 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 9.4 million, with a positive equivalent value of around Euro 7.

As at 31 December 2009, there were three positions related to interest-rate derivative instruments (two Interest rate swaps, one Cap) 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 4.8 million, with a negative equivalent value of around Euro 212 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 are referable to existing interest bearing financial payables (current portion) and interest bearing financial payables and to the existing derivative instruments. In particular, the potential impacts on the Income Statement of the 2011 financial period (compared to 2010) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2010 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 2011 financial period (compared to 2010, calculated with reference to the situation existing at the end of the 2009 reporting period, respectively) 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 2011 financial period (compared to 2010).
- 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 2010, 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 2011 financial period of Euro 151 thousand, offset by an increase of Euro 54 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 46 thousand, offset by a decrease of Euro 16 thousand in the collected spread for the existing derivatives.

With reference to the situation as at 31 December 2009, 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 2010 financial period of Euro 192 thousand, offset by an increase of Euro 35 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 55 thousand, offset by a decrease of Euro 10 thousand in the collected spread for the existing derivatives.

(€ in thousands)	Interest Rate December 2010 Residual debt	Impact on the IS +100 bs	Impact on the IS -30 bs	December 2009 Residual debt	Impact on the IS +100 bs	Impact on the IS -30 bs
Borrowings	(34,004)	(151)	46	(40,977)	(192)	55
Total Loans	(34,004)	(151)	46	(40,977)	(192)	55
(€ in thousands)	Notional	Impact on the IS +100 bs	Impact on the IS -30 bs	Notional	Impact on the IS +100 bs	Impact on the IS -30 bs
Derivative instruments hedging cash flows	9,400	54	(16)	4,800	35	(10)
Total Derivative instruments	9,400	54	(16)	4,800	35	(10)
Total		(97)	30		(157)	45

Fair value sensitivity of derivatives
31 December 2010

(€ in thousands)	Notional value	Net FV	Net FV + 100 bps	Δ Net FV + 100 bps	Impact on the IS + 100 bps	Impact on SE + 100 bps	Net FV -30 bps	Δ Net FV -30 bps	Impact on the IS -30 bps	Impact on SE -30 bps
Derivative instruments hedging cash flows	9,400	7*	268	261	-	261	(86)	(93)	-	(93)
Total	9,400	7	268	261	-	261	(86)	(93)	-	(93)

Fair value sensitivity of derivatives
31 December 2009

(€ in thousands)	Notional value a	Net FV b	Net FV + 100 bps	Δ Net FV + 100 bps	Impact on the IS + 100 bps	Impact on SE + 100 bps	Net FV -30 bps	Δ Net FV -30 bps	Impact on the IS -30 bps	Impact on SE -30 bps
Derivative instruments hedging cash flows	4,800	(212)	(149)	63	-	63	(232)	(20)	-	(20)
Total	4,800	(212)	(149)	63	-	63	(232)	(20)	-	(20)

(*) the indicated fair value is calculated net of the positive mark to market

With reference to the situation as at 31 December 2010, 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 261 thaousand, with an impact on the Income statement of the 2011 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 93 thousand, with an impact only on the Income statement of the 2011 financial period.
With reference to the situation as at 31 December 2009, 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 63 thousand, with an impact on the Income statement of the 2010 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 – 20 thousand, with an impact only on the Income statement of the 2010 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 very 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. All positions relating to trade receivables, both with reference to the end of the 2010 and 2009 reporting periods, expire before 12 months, with the exception in 2010 of a total amount of Euro 817 thousand expiring beyond 12 months.

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 2010 and to 2009 financial periods, with regard to financial instruments, by residual maturity, is set out below:

Expiry	Financial period as at 31 December 2010				
	Financial Payables		Trade Payables	Derivate Instruments	Total
	Capital	Interest Rates			
(€ in thousands)	a	b	c	d	a+b+c+d
Within 12 months	14,335	983	25,026	(113)	**48,231**
Between one and two years	3,861	934	-	(10)	**4,785**
Between two and three years	6,053	791	-	10	**6,854**
Between three and five years	3,232	936	-	64	**4,232**
Between five and seven years	5,600	751	-	47	**6,398**
After more than 7 years	923	42	-	14	**979**
Total	34,004	4,437	25,026	12	63,479

Expiry	Financial period as at 31 December 2009				
	Financial Payables		Trade Payables	Derivate Instruments	Total
	Capital	Interest Rates			
(€ in thousands)	a	b	c	d	a+b+c+d
Within 12 months	29,223	1,011	17,751	(133)	**47,852**
Between one and two years	3,904	512	-	(78)	**4,338**
Between two and three years	1,436	417	-	(4)	**1,849**
Between three and five years	6,093	342	-	-	**6,435**
Between five and seven years	321	16	-	-	**337**
After more than 7 years	-	-	-	-	**-**
Total	40,977	2,298	17,751	(215)	60,811

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 2010 and 31 December 2009).

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). 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.
In order to reduce the exposure to the exchange-rate risk deriving from its own commercial operations, the Company signs derivative contracts (currency forward contracts) fit for defining in advance the conversion rate, or a predetermined range of conversion rates, on future dates.
The potential impacts on the Income Statement of the 2011 financial period (compared to 2010) referable to the exchange-rate risk are set below:

- Revaluation/write-downs of asset and liability items in foreign currency.
- Change in the fair value of existing derivative instruments hedging asset and liability items in foreign currency.

The Company estimated the potential impacts on the Income Statement of the 2012 and 2011 financial periods (compared to 2010, calculated with reference to the situation existing at the end of the 2009 reporting period, respectively) produced by a shock of the exchange-rate market, by using internal measurement models, based on the general acceptance approach.

	Exposure in foreign currency (USD) 2010			Sensitivity 2010	
Exposure with regard to equity items	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Δ income statement EUR/USD exchange rate +5%	Δ income statement EUR/USD exchange rate -5%
Trade receivables	13,396	-	13,396	(501)	501
Trade payables			-	-	-
Total gross exposure with regard to equity items	13,396	-	13,396	(501)	501
Derivative instruments	-	-	-	-	-
Total net exposure with regard to equity items	13,396	-	13,396	(501)	501

	Exposure in foreign currency (USD) 2010			Sensitivity 2009	
Exposure with regard to equity items	Assets (USD/000)	Liabilities (USD/000)	Equity (USD/000)	Δ income statement EUR/USD exchange rate +5%	Δ income statement EUR/USD exchange rate -5%
Trade receivables	13,103	-	13,103	(455)	455
Trade payables			-	-	-
Total gross exposure with regard to equity items	13,103	-	13,103	(455)	455
Derivative instruments	-	-	-	-	-
Total net exposure with regard to equity items	13,103	-	13,103	(455)	455

COMMENTS TO THE MAIN BUDGET ITEMS

Non-current assets

4.Intangible assets

The breakdown of *Intangible assets* as at 31 December 2010 and as at 31 December 2009 is indicated in the table below:

	31 December					
	2010			2009		
(€ in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Development costs	11,692	(6,209)	5,483	7,982	(3,625)	4,357
Rights and trademarks	1,971	(1,360)	611	1,824	(1,151)	673
Property, plant and equipment in progress	27	-	27	49	-	49
Total intangible assets	13,690	(7,569)	6,121	9,855	(4,776)	5,079

The following table shows the changes in intangible assets for the period ended 31 December 2010:

(€ in thousands)	01/01/2010	Increases due to purchases	Decreases	Reclassifications	Amortization and depreciation	31/12/2010
Development costs	4,357	3,710	-	-	(2,584)	5,483
Rights and trademarks	673	146	-	-	(208)	611
Property, plant and equipment in progress	49	-	(22)	-	-	27
Total	5,079	3,856	(22)	-	(2,792)	6,121

All the costs related to projects for the development of new products and equipment that are expected to generate positive cash flows in future financial periods are capitalised in Development costs.

Intangible assets as at 31 December 2010 net of amortization amounted to Euro 6,121 thousand and increases for the period totalling Euro 3,856 thousand mainly consist in development costs of Euro 3,710 thousand and the remaining part in software licenses mainly related to the purchase of the new Hyperion system for reporting and consolidated financial statements.

In case of impairment signs and as a result of impairment tests there are results suggesting that the value of a project will not be recovered by the generation of future cash flows, it is fully amortised in the financial period.

The following table shows the changes in intangible assets for the period ended 31 December 2009:

(€ in thousands)	01/01/2009	Increases due to purchases	Decreases	Reclassifications	Amortization and depreciation	31/12/2009
Development costs	3,243	2,692	-	-	(1,578)	4,357
Rights and trademarks	556	294	-	-	(177)	673
Property, plant and equipment in progress	-	49	-	-	-	49
Total	3,799	3,035	-	-	(1,755)	5,079

Intangible assets as at 31 December 2009 amounted to Euro 5,079 thousand and increases for the period mainly consisted in development costs capitalised in the period of Euro 2,692 thousand, in software licenses of Euro 294 thousand and in intangible assets in progress of Euro 49 thousand.

5.Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2010 and as at 31 December 2009 is indicated in the table below:

	31 December					
	2010			2009		
(€ in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Land	-	-	-	-	-	-
Buildings	-	-	-	-	-	-
Plant and equipment	7,882	(2,943)	4,939	7,057	(2,272)	4,785
Fittings	2,108	(1,669)	439	1,718	(1,419)	299
Other assets	5,436	(1,394)	4,042	6,167	(1,032)	5,135
Property, plant and equipment in progress	40	-	40	-	-	-
Total property, plant and equipment	15,466	(6,006)	9,460	14,942	(4,723)	10,219

Including leased property, plant and equipment :

	31 December					
	2010			2009		
(€ in thousands)	Historical cost	Accum. amort.	Net value	Historical cost	Accum. amort.	Net value
Land	-	-	-	-	-	-
Buildings	-	-	-	-	-	-
Plant and equipment	2,394	(356)	2,038	2,652	(1,652)	1,000
Fittings	56	(56)	-	142	(105)	37
Other assets	-	-	-	-	-	-
Property, plant and equipment in progress	-	-	-	-	-	-
Total	2,450	(412)	2,038	2,794	(1,757)	1,037

The following table shows the changes in property, plant and equipment for the period ended 31 December 2010:

(€ in thousands)	01/01/2010	Increases due to purchases	Decreases	Reclassifications	Amortization and depreciation	31/12/2010
Land	-	-	-	-	-	-
Buildings	-	-	-	-	-	-
Plant and equipment	4,785	1,002	-	(139)	(709)	4,939
Fittings	299	213	-	139	(212)	439
Other assets	5,135	27	(413)	-	(707)	4,042
Property, plant and equipment in progress	-	40	-	-	-	40
Total	10.219	1.282	(413)	-	(1.628)	9.460

In 2010, the Parent Company invested an overall amount of Euro 1,282 thousand in property, plant and equipment.

The description of the investment by individual items is indicated below:

- *plant and equipment* overall investment of Euro 1,002 thousand mainly related to the modernisation of the production plant of Sirone with the purchase of a new work centre of Euro 565 thousand and of a new lathe, with a lease contract of Euro 200 thousand;
- *fittings* increased by Euro 213 thousand, the increase mainly refers to the modernisation of the production plant of Sirone and to the purchase of dies for new fittings for the stringing equipment;
- *property, plant and equipment in progress* increased of Euro 40 thousand for investments related to the construction of new machines for the stringing equipment.

The following table shows the changes in property, plant and equipment for the period ended 31 December 2009:

(€ in thousands)	01/01/2009	Increases due to purchases	Decreases	Reclassifications	Amortization and depreciation	31/12/2009
Land	-	-	-	-	-	-
Buildings	-	-	-	-	-	-
Plant and equipment	3,790	1,999	(488)	38	(554)	4,785
Fittings	275	263	(1)	(49)	(189)	299
Other assets	1,526	4,655	(768)	11	(289)	5,135
Property, plant and equipment in progress	-	-	-	-	-	-
Total	5,591	6,917	(1,257)	-	(1,032)	10,219

In 2009, the Company invested in property, plant and equipment for around Euro 6,917 thousand, consisting mainly of the following:

- investments in *plant and equipment* (Euro 1,999 thousand) mainly leased
- investments in *other assets* mainly referring to the formation of a fleet of trenchers to be rented to third parties (Euro 4,655 thousand).

6.Equity investments in subsidiaries, associates and joint ventures

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2010 and 2009 is indicated in the table below:

	31 December	
(in thousands)	2010	2009
Subsidiaries:		
Tesmec USA, Inc.	13,807	4,000
Tesmec Balkani E.O.D. (Former Tesmec Beta AD)	203	117
Tesmec Service S.p.A.	326	326
Total equity investments in subsidiaries	14,336	4,443

During the financial period, the Company increased the value of equity investments in Tesmec USA and Tesmec Balkani:

- On 18 January 2010, Tesmec USA resolved a share capital increase of USD 14,166 thousand. 37% of this increase was underwritten by Simest (Società Italiana per le Imprese all'Estero S.p.A.) with the remaining portion being underwritten by Tesmec on the basis of an agreement signed on 15 December 2009. As a result of this operation, as from 18 January 2010, Simest holds 25% of the share capital of the subsidiary Tesmec USA. The contract signed with Simest includes an option on the part of TESMEC to re-purchase the shares owned by Simest during the period between 30 June 2015 and 30 June 2017. The contract also defined the economic terms for the exercise of the option. Substantially, the transaction qualifies not as a transfer of a minority share but as a loan agreement guaranteed by the equity investment. As a result, as already done in preparing the interim condensed consolidated financial statements as at 30 June 2010, also on 31 December 2010Tesmec USA has been 100% consolidated on a line by line basis and a financial liability of Euro 3,696 thousand, equivalent to the present value of the agreed purchase price, has been recorded relative to Tesmec S.p.A.'s commitment to re-purchase these shares

- on 28 December 2010, the Parent Company converted a sum amounting to Euro 86 thousand - paid with respect to a short-term loan to Tesmec Balkani - in capital reserve by considering this sum as a non-repayable subsidy.

The following table show the main budget items of subsidiaries:

(€ in thousands)	31 December 2010 % held	Revenues	Net income	Assets	Liabilities	Shareholders' equity	Book value
Subsidiaries:							
Tesmec USA, Inc.	100.00%	10,054	(1,324)	29,177	12,886	16,291	13,807
Tesmec Balkani E.O.D. (former Tesmec Beta AD)	66.38%	1	(57)	176	158	18	203
Tesmec Service S.p.A.	100.00%	420	149	1,303	828	475	326

The breakdown of equity investments in associates and joint ventures as at 31 December 2010 and 2009 is indicated in the table below:

(€ in thousands)	31 December 2010	2009
Associated companies:		
Locavert SA	52	52
Zao Sibtechmash	123	123
Consorzio Lombartech	15	15
East Trencher S.r.l.	7	-
Subtotal	197	190
Joint ventures:		
Consorzio TR S.c.a.r.l.	5	5
Condux Tesmec Inc.	956	956
Subtotal	961	961
Total equity investments in associates	1,158	1,151

On 1 September 2010, Tesmec acquired a 24% capital share of East Trenchers Srl with registered office in Pordenone with the purpose of developing the service business for the trencher area with a special emphasis on the Eastern Europe area.

The following table show the main budget items of associated and joint ventures:

(€ in thousands)	31 December 2010 % held	Revenues	Net income	Assets	Liabilities	Shareholders' equity	Book value
Associated companies:							
Locavert SA	38.63%	888	(7)	448	262	186	52
Zao Sibtechmash	20.00%	4	(1)	5	10	(5)	123
Consorzio Lombartech	19.23%	10	(7)	14	14	-	15
East Trencher Srl	24.00%	6	3	285	274	11	7
Joint ventures:							
Consorzio TR S.c.a.r.l.	50.00%	-	(2)	82	83	(1)	5
Condux Tesmec Inc.	50.00%	2,398	89	2,086	1,044	1,042	956

7. Other equity investments

Other equity investments that remained unchanged compared to the previous financial period, includes the shares held by Tesmec S.p.A. in the trade consortia: Consorzio Intellimech (Euro 2 thousand) and other consortia (Conai, Eurofidi).

8.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 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Guarantee deposits	3	3
Financial receivables due from subsidiaries	-	-
Financial receivables due from associates and joint ventures	-	-
Financial receivables due from related parties	-	1,211
Total financial receivables and other non-current financial assets	3	1,214

The change in *Financial receivables and other non current assets* compared to the prior financial period is entirely linked to the reduction of financial receivables due from related parties that decreases of Euro 1,211 thousand. This receivable was due from the Reggiani Macchine company and was fully collected during the year.

Current assets

9.Inventories

The following table sets forth the breakdown of Inventories as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Raw materials and consumables	18,800	17,132
Work in progress	4,523	3,518
Finished goods and merchandise	4,488	4,491
Advance to suppliers for assets	236	-
Total Inventories	28,047	25,141

The measurement bases of inventories remained unchanged compared to the prior financial period. The item increased all-in-all by Euro 2,906 thousand; the increase is almost entirely linked to the increase in raw materials and consumables and in work in progress, both related to the increase in turnover reported during 2010 by the Company. It should be noted that the 12% increase is lower than the 28% growth in revenues recorded in the year in confirmation of the success of the actions undertaken by the company to monitor the level of stocks during the year.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2010 and 2009 are indicated in the table below:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Value as at 1 January	1,200	1,200
Provisions	-	-
Uses	-	-
Total provisions for inventory obsolescence	1,200	1,200

The value of the provisions for inventory obsolescence remains unchanged compared to the prior financial period.
The evaluation of adequacy of the provision is carried out on a regular basis to constantly monitor the actual level of inventory recoverableness through sales.

10.Trade receivables

The following table sets forth the breakdown of trade receivables as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Trade receivables from third-party customers	28,439	23,302
Trade receivables from subsidiaries	878	180
Trade receivables from associates and joint ventures	1,899	2,425
Trade receivables from related parties	1,080	620
Total trade receivables	32,296	26,527

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

Trade receivables from third-party customers as at 31 December 2010 amounted to Euro 32,296 thousand up by Euro 5,769 thousand compared to the 2009 financial period, this increase is strictly related to the increase in revenues.

Trade receivables from third-party customers are mainly due within 12 months. Euro 817 thousand have a maturity beyond the financial period for which instruments guaranteeing the credit were used. Supplies to customers located in specific geographical areas, and mainly in the Middle East, North Africa and India, are carried out against letters of credit and therefore these supplies are collected nearly when the goods are shipped.

The adjustment of receivables from foreign customers at the year-end exchange-rate implied the recognition of an unrealised foreign exchange loss of Euro 208 thousand as at 31 December 2010.

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 and by applying to each class an expected percentage of loss derived from historical experience.

The changes in the provisions for doubtful accounts for the financial periods ended 31 December 2010 and 2009 are indicated in the table below:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Value as at 1 January	367	347
Provisions	-	20
Uses	(4)	-
Total provisions for doubtful accounts	363	367

Uses of the 2010 financial period related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

11.Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Receivables from tax authorities for documented development costs	-	259
IRES receivables	-	807
Other tax receivables	56	2
Total tax receivables	56	1,068

Tax receivables as at 31 December 2010 refer:

- receivables from tax authorities for the refund of IRAP sanctions paid with regard to the 2005 tax year, amounting to Euro 46 thousand, for which the Provincial Tax Commission of Milan decided the refund in favour of the company;
- to receivables for withholding tax incurred in the year 2010, amounting to Euro 8 thousand;
- receivables for taxes paid abroad in the year 2010, amounting to Euro 2 thousand.

12. Other available-for-sale securities

The following table sets forth the breakdown of Other available-for-sale securities as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Shares of Banca Popolare di Sondrio	-	96
Shares of Banco Popolare Italiano	9	18
Shares of Banca Popolare di Vicenza	92	-
Total other available-for-sale securities	101	114

Other available-for-sale securities as at 31 December 2010 consists of 3,357 shares of Banco Popolare Italiano for a unit value of Euro 2.475 and of 1,500 shares of Banca Popolare di Vicenza for a unit value of Euro 61.5, these shares were purchased on 30 December 2010.

During the financial period, 13,440 shares of Banca Popolare di Sondrio were sold on 19 March 2010 obtaining a capital gain of Euro 4 thousand.

13. 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 2010 and as at 31 December 2009:

	31 December	
(€ in thousands)	2010	2009
Financial receivables due from subsidiaries	177	3,471
Financial receivables due from associates and joint ventures	-	-
Financial receivables due from related parties	207	2,974
Guarantee deposits	16	209
Accrued income	62	-
Total financial receivables and other current financial assets	462	6,654

Guarantee deposits as at 31 December 2010 and as at 31 December 2009 mainly refer to amounts paid by Tesmec S.p.A. for lease and supply contracts. The guarantee deposit for the purchase option of the Endine building was reclassified among financial receivables from related parties.

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

14. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2010 and as at 31 December 2009:

	31 December	
(€ in thousands)	2010	2009
Accrued income	2	-
Prepaid expenses	559	135
Deferred listing costs	-	1,227
VAT credit	231	1,385
Other receivables	446	328
Advance to suppliers for services	78	32
Total other current assets	1,316	3,107

Other current assets are considered receivable and therefore were not subject to value adjustment.

Prepaid expenses amounted to Euro 559 thousand as at 31 December 2010 whereas they amounted to Euro 135 thousand as at 31 December 2009 and they mainly refer to advance payments of insurance premiums and operating rentals.

Deferred listing costs amounted to zero as at 31 December 2010 as a result of the listing on 1 July 2010.

VAT credit, which amounted to Euro 231 thousand as at 31 December 2010, decreased by Euro 1,154 thousand compared to 31 December 2009.

Other receivables as at 31 December 2010 amounted to Euro 446 thousand compared to Euro 328 thousand as at 31 December 2009 and contains an amount of Euro 357 thousand for advances paid for the carrying-out of an after-sales services order for the Middle-East and North Africa areas. As at 31 December 2010, in the light of the uncertain political situation in the area, Euro 178 thousand, equivalent to 50% of the advances paid, was allocated to provision for risks for prudential reasons on that amount.

Advance to suppliers as at 31 December 2010 amounted to Euro 78 thousand compared to Euro 32 thousand as at 31 December 2009; they mainly refer to advance payments to suppliers for the purchase of services.

15.Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Bank and post office deposits	7,421	1,350
Cash on hand	8	4
Total cash and cash equivalents	7,429	1,354

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 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.

16.Shareholders' equity

Equity

During the 2010 financial period, an increase in share capital was carried out for Euro 1,650 thousand, from Euro 9,058 thousand to 10,708 thousand, as detailed in the statement of changes in Shareholders' Equity. Such increase was carried out upon the listing on 1 July of the Tesmec Group on the Regulated Market, STAR segment, managed by Borsa Italiana.
As at 31 December 2010, the share capital of Tesmec S.p.A. totals Euro 10,708,400 and is comprised of 107,084,000 shares with a par value of Euro 0.1 each.
The increase in the *Share premium reserve* from Euro 2,554 thousand to Euro 10,915 thousand is completely related to the listing of the shares of the Company on the Italian Electronic Stock Market (STAR segment) through the issue of new 16,500,000 shares of the premium value of Euro 0.6 each

Such increase, of Euro 8,361 thousand in total, was shown net of expenses related to the Public Subscription Offer of Euro 2,070 thousand in compliance with the provisions of IAS 32.

Dividends of Euro 2,582 thousand were distributed in the 2010 financial period.

The following table sets forth the breakdown of Other reserves as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Revaluation reserve	86	86
Extraordinary reserve	6,502	5,278
Retained earnings/(losses brought forward)	2,490	59
Reserve First Time Adoption	(5,619)	(5,619)
Total other reserves	**3,459**	**(196)**

The revaluation reserve is a reserve in respect of which tax has been deferred, set up in accordance with Italian Law No. 72/1983.

As at 31 December 2010, *extraordinary reserves* increased by a total of Euro 1,224 thousand as a result of the decision for the allocation of the 2009 net income.

The Reserve for First Time Adoption is mainly related to the application of the principle of continuity of values within extraordinary operations concluded among companies under common control with a subsequent write-off of the higher values recognised in the transaction with the Shareholders' Equity as a balancing entry.

The 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	Possibility of usage	Amount available	Summary of uses in the last 3 periods	
(€ in thousands)				to cover losses	other
Shareholders' equity	10,708				
Equity's reserves					
Share premium reserve	10,915	A, B, C (*)	10,915	-	-
Earnings reserves					
Legal reserve	799	B			
Revaluation reserve	86	A, B, C	86	-	-
Extraordinary reserve	6,502	A, B, C	6,502	-	-
Reserve First Time Adoption	(5,619)				
Retained earnings/(losses brought forward)	2,490	B			
Net profit of the period	6.552				
Total	**32,433**		**17.503**	**-**	**-**

* As stated in the Civil Code of article 2431, the whole amount is distributable only under the condition that the legal reserve should have reached the limit indicated in the Civil Code of article 2430.

Legend:
A: to increase shareholders' equity
B: to cover losses
C: to distribute to shareholders

Non-current liabilities

17. Interest bearing financial payables

Interest-bearing financial payables include medium/long term loans from banks, payables towards other providers of finance and payables towards leasing companies for tangible fixed assets recorded in the consolidated financial statements in accordance with the financial leasing accounting method.
The following table shows the breakdown thereof as at 31 December 2010 and as at 31 December 2009, with separate disclosure of the current portion:

	31 December			
(€ in thousands)	2010	of which current portion	2009	of which current portion
Efibanca – non-preferential loan; original value Euro 5 million, drawn down on 21 May 2007 with maturity date 30 June 2012; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.70% .	3,750	1,875	5,000	2,500
Eracle Finance – non-preferential unsecured loan drawn down on 13 July 2006 from JP Morgan Chase Bank and transferred on 2 August 2006 to Eracle Finance; original value Euro 4 million; repayable in a single instalment on 31 July 2013; fixed interest rate of 7.61% + variable interest rate <0.0% and 0.1%>	3,930	-	3,895	-
Banca Popolare di Lodi – non-preferential loan with Sace guarantee for 50% of amount; original value Euro 2 million, drawn down on 16 January 2008 with maturity date 31 March 2013; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.50%	900	400	1,300	400
Banca Popolare di Milano – loan at variable interest rate; original value Euro 1 million; drawn down on 18 May 2009 with maturity date 28 February 2010; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.30%	-	-	224	224
Iccrea Banca – Istituto Centrale del Credito Cooperativo – non-preferential loan in pool assisted by Sace guarantee; original value Euro 2 million; drawn down on 6 August 2009 with maturity date 30 September 2014; variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.70%	1,487	381	1,858	371
Banca Popolare dell'Emilia Romagna – non-preferential loan with Sace guarantee for 70% of amount; original value Euro 2 million; drawn down on 20 October 2009 with maturity date 31 December 2014; fixed annual interest rate of 4.2%	1,633	383	2,000	367
Banca Nazionale del Lavoro – loan at variable interest rate with a 2-year pre-amortization; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; variable interest rate equivalent to Euribor 6 monthly rate + spread of 2.25%	6,000	-	-	-
Banca Popolare di Milano loan at variable interest rate; original value Euro 2 million; drawn down on 16 June 2010 with maturity date 30 June 2011; variable interest rate equivalent to Euribor 3 monthly rate + spread of 2%	1,007	1,007	-	-
Total interest bearing financial payables	18,707	4,046	14,277	3,862
Less current portion	(4,046)		(3,862)	
Non-current portion of interest bearing financial payables	14,661		10,415	
Loan due to Simest	3,696		-	
Total medium/long term loans	18,357		10,415	
Non-current portion of finance leases	1,614	302	1,592	253
Less current portion	(302)		(253)	
Non-current portion of finance leases, net	1,311		1,339	
Total current portion		4,348		4,115
Interest bearing financial payables	19,669		11,754	

Some loan contracts (Efibanca, ICCREA-BCC, BNL) contain certain financial covenant clauses, calculated on the basis of the separate financial statements of TESMEC or the Group consolidated financial statements; they are verified on an annual or semi-annual basis.

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

- Net financial indebtedness / EBITDA
- Net financial indebtedness / Shareholders' equity.

Based on the results of the financial statements of the Company and of the Tesmec Group, all expected covenants have been observed.

During the first-half of 2010, Tesmec S.p.A. raised two new loans with important banks: a loan of Euro 6,000 thousand with Banca Nazionale del Lavoro with maturity on 31 August 2018 and a fully short-term loan of Euro 2,000 thousand with Banca Popolare di Milano.

On 28 December 2010, Efibanca approved the extension of the loan that was to expire originally on 30 November 2011 until 30 June 2012.
The loan due to Simest of Euro 3,696 thousand derives from TESMEC USA's share capital increase. Refer to note 6.

The average cost of indebtedness is benchmarked to the trend of the three-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 2010, by indicating the portion due within one year, within 5 years and after more than 5 years:

Description *(€ in thousands)*	Maturity	Interest rate	Residual value as at 31 December 2010	Portion within 12 months	Portion within 5 years	Portion after more than 5 years
Efibanca	30 June 2012	variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.7%	3,750	1,875	1,250	-
Eracle Finance	31 July 2013	fixed interest rate of 7.61% + variable interest rate <0.0% and 0.1%> equivalent to Euribor 3 monthly rate + spread of 1.10%	3,930	-	3,930	-
Banca Popolare di Lodi	31 March 2013	variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.5%	900	400	500	-
Iccrea Banca - Istituto Centrale del Credito Cooperativo	30 September 2014	variable interest rate equivalent to Euribor 3 monthly rate + spread of 1.70%	1,487	381	1,106	-
Banca Popolare dell'Emilia Romagna	31 December 2014	Fixed interest rate of 4.2%	1,633	383	1,250	-
Banca Nazionale del Lavoro	31 May 2018	variable interest rate equivalent to Euribor 6 monthly rate + spread of 2.25%	6,000	-	3,231	2,769
Banca Popolare di Milano	30 June 2011	variable interest rate equivalent to Euribor 3 monthly rate + spread of 2%	1,007	1,007	-	-
Total			18,707	4,046	11,267	2,769

Net financial indebtedness

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

	31 December			
(€ in thousands)	2010	*of which with related parties and gr•up*	2009	*of which with related parties and group*
Cash and cash equivalents	(7,429)	-	(1,354)	-
Current financial assets [1]	(563)	*(384)*	(6,768)	*(6,445)*
Current financial liabilities	14,336	*2,208*	29,223	-
Current portion of derivative financial instruments	90	-	-	-
Current financial indebtedness [2]	6,434	*1,824*	21,101	*(6,445)*
Non-current financial liabilities	19,669	-	11,754	-
Non-current portion of derivative financial instruments	34	-	212	-
Non-current financial indebtedness [2]	19,703	-	11,966	-
Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006	26,137	*1,824*	33,067	*(6,445)*

(1) The current financial assets as at 31 December 2010 and 31 December 2009 include the market value of shares and warrants listed on the Italian Stock Exchange (Borsa Italiana), which are therefore accounted as cash and cash equivalents.
(2) Current and non-current financial indebtedness is not identified as an accounting element by the IFRS. The valuation criteria applied by the Company may not necessarily be the same as those adopted by others and therefore not necessarily comparable therewith.

Regarding the current financial assets, the total of Euro 384 thousand refers to financials receivables towards the subsidiary Tesmec Balkani (former Tesmec Beta) for Euro 177 thousand and to a cautionary deposit related to the rental contract of the complex in Endine Gaiano, for Euro 205 thousand.
The current financial liabilities refer to payables towards the subsidiary Tesmec USA for trade transactions to be regulated soon.

The decrease in indebtedness compared to 31 December 2009 is mainly due to good liquidity management and to the income from the listing operation net of costs. It is noted that dividends of Euro 2,582 thousand were paid during the year

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 2010 and 2009 are shown in the table below:

Counterparts	Type	Debt interest rate (fixed)	Credit interest rate (variable)	Start date	Maturity date	Notional principal (Euro/000)	Fair Value (as at 31 December) 2010	2009
BNL	IRS	Fixed interest rate 4.6%	Euribor 3 months	02/10/2008	02/10/2011	2,500	(90)	(158)
Banca Popolare di Lodi	IRS	Fixed interest rate 4.25%	Euribor 3 months	31/03/2008	31/03/2013	900	(34)	(54)
NL	IRS	1.15% 1st year; 1.65% 2nd year; 2% 3rd year; 2.60% five following years	Euribor 3 months	01/09/2010	31/05/2018	6,000	131	-
Assets for derivative instruments							131	-
Liabilities for derivative instruments within the financial period							(90)	-
Liabilities for derivative instruments beyond the financial period							(34)	(212)

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The hedge of the interest-rate transactions are mainly related to medium-term loans. 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 is 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 2010 and 31 December 2009 of employee benefits:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Present value of the liability at the beginning of the period	3,211	3,344
Curtailment	-	-
Financial expense	135	134
Transfers	-	-
Benefits paid	(411)	(237)
Actuarial profit / loss recognised	33	(30)
Present value of the liability at the end of the period	2,968	3,211

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	
	2010	2009
Annual discount rate	4.50%	4.50%
Inflation rate	2.00%	2.00%
Expected turnover rate of employees	2.00%	2.00%
Advance rate	3.00%	3.00%

Technical and demographic bases

	Financial period ended 31 December	
	2010	2009
Mortality	IPS55 tables	IPS55 tables
Disability	INPS-2000 tables	INPS-2000 tables
Retirement age	59.13	59.10

Frequency of turnover and advances on severance indemnity

	Financial period ended 31 December	
	2010	2009
Advance frequency %	1.70%	2.10%
Turnover frequency %	16.00%	17.00%

Workforce

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

	Financial period ended 31 December	
(average no. of employees)	2010	2009
Executives	8	8
Managers, employees and equated	122	102
Workers	160	159
Total	290	269

The average number of employees as at 31 December 2010 shows the growing trend of the Company in 2010 that was partially related to the listing process. This process resulted in the recruitment of high-potential professionals in the Middle Management range.

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 2010 and 2009 financial periods:

	31 December	
(€ in thousands)	2010	2009
Advances from banks against invoices and bills receivables	7,019	23,723
Short-term portion of financial leases	302	253
Financial payables due to subsidiaries	2,208	-
Advances from factors	761	1,385
Current accounts overdraft	-	-
Current portion of interest-bearing loans and borrowings	4,046	3,862
Interest-bearing loans and borrowings whose financial covenants have not been breached	-	-
Total interest-bearing financial payables (current portion)	14,336	29,223

Advances from factors decreased compared to the prior financial period passing from Euro 1,385 thousand to Euro 761 thousand. This item refers to advances without recourse granted to some suppliers by leading factoring companies.

Interest-bearing financial payables (current portion) decreased by Euro 14,887 thousand compared to 31 December 2009 as a result of the listing operation closed successfully on 1 July 2010, of the cash flow from current operations and of the increase in medium to long-term sources of financing.

21.Trade payables

The breakdown of *Trade payables* as at 31 December 2010 and as at 31 December 2009, respectively, is indicated in the table below:

	31 December	
(€ in thousands)	2010	2009
Trade payables due to third-parties	23,478	17,514
Trade payables due to subsidiaries	1,464	152
Trade payables due to associates and joint ventures	7	-
Trade payables due to related parties	77	85
Total trade payables	25,026	17,751

Trade payables as at 31 December 2010 increased by Euro 5,964 thousand compared to the prior financial period mainly due to the combined effect of the increase in external purchases as a result of higher sales volumes and to the gradual alignment of the terms of payment with the conditions of collection from the customers, thanks to the policy undertaken during 2010.

22.Income taxes payable

The balance of Euro 3,847 thousand as at 31 December 2010 and Euro 1,708 thousand as at 31 December 2009, represents the amount payable for current income taxes for the period.

	31 December	
(€ in thousands)	2010	2009
IRPEF for employees due to the revenue	512	344
Current IRES tax liabilities	2,809	941
Current IRAP tax liabilities	495	399
Withholding taxes	31	24
Total income taxes payable	3,847	1,708

IRES and IRAP taxes payable as at 31 December 2010 includes the net payable due by the Company for the payment of direct income taxes.

23.Provisions for risks and charges

Provisions for risks and charges mainly refers to the product guarantee fund, which includes the estimate of the cost of the interventions that the Company deems to carry out during the next financial period against the sales carried out during the financial period. 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 2010 and 2009 are indicated below:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Value as at 1 January	600	600
Provisions	178	-
Uses	-	-
Value as at 31 December	778	600

The provision of Euro 178 thousand as at 31 December 2010 refers to a receivable of Euro 357 thousand for advances for advances paid in order to activate a job order for technical assistance service in the area of North Africa and the Middle East. In the light of the current political situation in the Area, it was deemed correct to write such receivable down by 50%.

24. Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2010 and as at 31 December 2009:

	31 December	
(€ in thousands)	2010	2009
Due to social security	713	563
Due to INAIL (National Insurance Institute for Industrial Accidents)	-	(18)
Due to trade funds	115	112
Due to employees and collaborators	1,890	1,306
Due to others	12	-
Accrued expenses and liabilities	143	22
Total other current liabilities	2,873	1,985

Other current liabilities increased compared to the prior financial period of Euro 888 thousand. The increase is linked almost exclusively to the increase in due to employees and collaborators that passes from Euro 1,306 thousand to Euro 1,890 thousand and mainly refers to the payables accrued for the remunerations of December that are settled in the first few days of January and for the remaining part to the payable related to amounts for holiday entitlement accrued and not taken.

25. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2010 and 2009:

	31 December	
(€ in thousands)	2010	2009
Deferred tax assets	3,508	2,490
Deferred tax liabilities	304	840

The breakdown of net deferred taxes as at 31 December 2010 and 2009 is shown in the following table by type by listing the items that present underlying temporary differences:

	31 December				Financial period ended 31 December	
	Statement of financial position		Shareholders' equity		Income statement	
(in thousands)	2010	2009	2010	2009	2010	2009
Deferred tax assets						
Entertainment expenses	1	4	-	-	(3)	(4)
Maintenance charges	9	12	-	-	(3)	(3)
Guarantee fund	165	165	-	-	-	-
Provision for risks	49	-	-	-	49	-
Obsolescence fund	377	377	-	-	-	-
Provisions for doubtful accounts	72	73	-	-	(1)	25
Directors' fees	-	-	-	-	-	-
Unrealised exchange-rate losses	100	43	-	-	57	43
Tax effect on UCC gain reversals	1,127	1,520	(246)	-	(147)	(508)
Reversals of intangible assets	302	295	22	-	(15)	(228)
Development costs	81	-	-	-	81	-
Listing expenses	1,225	-	584	-	641	-
Other temporary differences	-	1	-	-	(1)	(90)
Total deferred tax assets	3,508	2,490	360	-	658	(765)
Deferred tax liabilities						
Unrealised exchange-rate gains	(66)	(19)	-	-	(47)	(19)
Selling margin pertaining for tax purposes to subs. financial periods	(27)	(343)	-	-	316	(343)
Financial lease accounting method	(109)	(361)	223	-	29	(105)
Other temporary differences	(102)	(117)	-	-	15	26
Total deferred tax liabilities	(304)	(840)	223	-	313	(441)
Effect on Shareholders' Equity						
Net balance deferred wealth taxes	3,204	1,650				
Represented in the income statement as follows:						
Deferred tax assets	658	(765)				
Deferred tax liabilities	313	(441)				
Deferred tax liabilities, net	971	(1,206)				

According to the Italian tax legislation, losses can be retained in the next five financial periods except for losses suffered in the first three financial periods of the company that can be retained without limits. Tax recovery corresponds to a rate of 27.5% for Italian companies.

Current taxation
Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2010 and 2009 are summarised below:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Pre-tax profits	**9,819**	**8,908**
Current taxation	4,238	1,579
Deferred tax liabilities/assets	(971)	1,206
Total taxes	**3,267**	**2,785**

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	
		2010	
(€ in thousands)		IRES	IRAP
Profit before tax	A	**9,819**	**9,819**
Difference in taxable income between IRES and IRAP	B	-	10,907
	C=A+B	9,819	20,726
Nominal rate (%)	D	27.5%	3.9%
Theoretical taxes	E=C*D	**2,700**	**808**
Tax effect on permanent differences	F	-	4
Tax effect on temporary differences	G	1,155	-
Tax effect on the re-absorption of temporary differences	H	(335)	(44)
Current taxation posted to the income statement	I=E+F+G+H	**3,520**	**768**
Deferred tax liabilities	L	(309)	(4)
Deferred tax assets	M	(679)	21
Taxes related to prior financial periods	N	(50)	-
Aggregate tax posted to the income statement	I+L+M+N	**2,482**	**785**

Comments to the main items in the income statement

26. Revenues from sales and services

In the 2010 and 2009 financial periods, revenues from sales and services amounted to Euro 102,121 thousand and Euro 79,515 thousand, respectively.

The breakdown of revenues from sales and services for the 2010 and 2009 financial periods is shown below:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Sales of products	97,604	78,183
Services rendered	4,517	1,332
Total revenues from sales and services	102,121	79,515

Revenues from product sales refer to income deriving from the transfer of stringing machines and trenchers and stringing equipment.

Revenues from rendering of services as at 31 December 2010 mainly include revenues deriving from the supply of integrated excavation solutions of Euro 4,094 thousand. This activity was started at the end of the 2008 financial period, but was developed in 2009 and especially in 2010 also thanks to the obtainment of a new contract work in South Africa for the carrying out of an excavation between the cities of Durban and Johannesburg on behalf of one of the main South African construction companies. In this project, Tesmec S.p.A. rented 4 trenchers and the service activity, started in August 2009 ended in August 2010.

The revenues of the company registered a 28% growth rate that will be better analysed later in the segment reporting.

The item also includes revenues for after-sales services to customers totalling Euro 423 thousand as at 31 December 2010 and totalling Euro 286 thousand as at 31 December 2009.

27. Cost of raw materials and consumables

For the financial periods as at 31 December 2010 and 2009, cost of raw materials and consumables amount to Euro 48,479 thousand and Euro 37,167 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Cost for the purchase of raw materials and consumables	51,149	37,588
Change in inventories	(2,670)	(421)
Total cost of raw materials and consumables	48,479	37,167

It should be noted that the increase of the cost item is mainly determined by the increase in sales volume. In the second half of the 2010 financial period, tensions on the trend of commodity prices started to occur with the increase in purchase costs. Tesmec S.p.A. countered this phenomenon with a policy of important savings including the search for suppliers in Countries with low labour costs but with high-quality levels.

28. Costs for services (including non-recurring expenses)

The table below shows the breakdown of *costs for services* that amounted in 2010 and in 2009 to Euro 22,996 thousand and Euro 15,213 thousand, respectively.

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Transport, customs and incidental expenses	2,609	1,755
Outsourced work service	4,911	4,318
Services for legal, tax, technical and other consultancy	6,804	1,812
External production services	1,480	1,162
Banking services	507	498
Insurance	170	142
Energy, water, gas, telephone expenses and postage	984	896
Board and lodging expenses and travelling allowance	673	679
Directors' and Auditors' fees	850	540
Advertising and other selling expenses	630	330
Maintenance services	351	291
Commissions and additional expenses	2,317	2,119
Other general expenses	710	671
Total costs for services	22,996	15,213

The increase in costs for services is mainly related to the change in the following items:

- *costs related to outsourced work* together with *external production services*, which represent the variable component of this aggregate, increased by 17% from Euro 5,480 thousand in the 2009 financial period to Euro 6,391 thousand in the 2010 financial period. However, it must be noted that they increased less than proportionally than the increase in sales volumes (+22%). This phenomenon was possible thanks to the strategy of increasing the production base of the company over the last years.
- *consultancy costs* of Euro 6,804 thousand in the 2010 financial period compared to Euro 1,812 thousand in the 2009 financial period. In 2010, this item included costs incurred for the listing process of the Company totalling Euro 3,443 thousand. This item includes costs related to the start of new service activities and new commercial representation offices (Beijing Office) where the Company made use of the experience of external consultants.

The breakdown of non-recurring expenses linked to the listing process are set below:

	Financial period ended 31 December
(€ in thousands)	2010
Audit and management control	1,146
Legal	1,531
Sponsor	2,171
Media	667
Other	52
Total expenses incurred for IPO	5,567
of which share premium reserve	2,124
Total non-recurring costs	3,443

- *commissions and additional expenses* (Euro 2,317 thousand in the 2010 financial period, Euro 2,119 thousand in the 2009 financial period) increased by 9% and mainly refer to fees recognised to agents of the stringing department.

- *transport, customs and incidental expenses* increased due to a general increase of the freight costs compared to 2009 and due to the different mix of products sold.

29. Payroll costs

During the financial periods ended 31 December 2010 and 2009, payroll costs amounted to Euro 14,360 thousand and Euro 12,532 thousand, respectively, up by 15%.

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Wages and salaries	10,746	9,128
Social security charges	2,926	2,629
Employee severance indemnity	627	731
Other personnel costs	61	44
Total payroll costs	14,360	12,532

The increase in this item is related to the adjustment of the personnel to pursue the expansion process of the Company. Following the conversion of the production operations of the factory of Sirone, the Company resorted to the redundancy fund by rotation starting from April 2009 through December 2009 for about 15 employees including approximately 11 workers (totalling 18,700 hours).
Later on, an agreement dated 12 January 2010 activated the special redundancy fund for at least a maximum number of 13 zero-hour workers as from 1 February 2010 until 31 January 2011 (totalling 23,580 hours).

30. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2010 and 2009, other net operating (costs)/revenues amounted to Euro 3,826 thousand and Euro 3,496 thousand, respectively, with a 9% increase.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(in thousands)	2010	2009
Provisions for risks and other net provisions	178	20
Write-down of equity investments	-	839
Rents	2,968	2,831
Hiring	382	407
Other lease and rental expenses	104	210
Sundry taxes	188	52
Other revenues	(148)	(632)
Other	154	(230)
Total other operating (costs)/revenues, net	3,826	3,497

The increase of this aggregate in a less than proportional way compared to the sales trend reflects the fixed nature of the expenses forming it.

The costs for rentals (Euro 2,968 thousand in the 2010 financial period, Euro 2,831 thousand in the 2009 financial period) included costs incurred for rentals recognised to related parties for using the buildings in which Tesmec carries on its activity.

The rental paid by Tesmec for the premises of Sirone increased in 2010 by Euro 113 thousand as a result of the expansion of the areas occupied for the activities carried out by Tesmec S.p.A..

The figure as at 31 December 2009 includes extraordinary costs for the write-down on equity investments of Euro 839 thousand and positive components not related to the core business of the company concerning the sale of some plants and equipment.

31. Amortization and depreciation

During the financial periods ended 31 December 2010 and 2009, depreciation and amortization amounted to Euro 4,420 thousand, Euro 2,787 thousand , respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Amortization of intangible assets	2,792	1,755
Depreciation of property, plant and equipment	1,628	1,032
Total amortization and depreciation	4,420	2,787

The increase in this cost for intangible assets is due to higher research and development costs amortised during the period. For property, plant and equipment the higher depreciation is related to the fleet of machines used for the service activity of the trencher segment. The depreciation was calculated on the basis of the greater use.

32.Development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2010 and 31 December 2009 amounted to Euro 3,050 and Euro 2,789 thousand, respectively.

During the reporting period, there is an increase in investments in development costs capitalised in relation to the expansion carried out of the number of personnel of the technical office in order to support the growing number of projects for the launch of new models and new functions requested by the markets in which the company operates.

However, as a result of the increased level of revenues of the company, the percentage weight of development costs capitalised on the revenues of the company dropped from 3.5% for the 2009 financial period to 3.0% for the 2010 financial period.

33.Financial expenses

During the financial periods ended 31 December 2010 and 2009, financial expenses amounted to Euro 3,024 thousand and Euro 2,650 thousand, respectively, with a 14% increase.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Bank interests expense	9	14
Interests payable for factoring and billing discounts	520	268
Interests payable on interest-bearing loans and borrowings	839	552
Interests payable on advance loans on exports	353	717
Interests payable on derivative instruments	163	145
Other sundry financial expenses	403	14
Financial expenses on lease contracts	50	250
Realised foreign exchange losses	478	531
Unrealised foreign exchange losses	208	156
Fair value adjustment of derivative instruments	1	3
Fair value adjustment of financial instruments available for sale	-	-
Total financial expenses	3,024	2,650

Financial expenses of the financial periods as at 31 December 2010 and 2009 mainly consist of:

- *interest rates payable on interest-bearing loans and borrowings* that increased compared to the prior financial period as a result of the combined effect of the increase in indebtedness of the company with medium to long term maturities compared to the prior financial period with constant interest rates on international financial markets;
- *interests payable on advance loans on exports* that decreased in the 2010 financial period due to the decrease in the use of this type of short-term borrowing;
- *foreign exchange losses* that as at 31 December 2010 amounted to Euro 478 thousand, down compared to Euro 531 thousand recorded as at 31 December 2009.

34. Financial income

During the financial periods ended 31 December 2010 and 2009, financial income amounted to Euro 1,753 thousand and Euro 449 thousand, respectively.

The breakdown of the item is as follows:

	Financial period ended 31 December	
(€ in thousands)	2010	2009
Interests from banks	31	7
Interests income on securities	-	-
Realised foreign exchange gains	1,052	-
Unrealised foreign exchange gains	171	67
Fair value adjustment of derivative instruments	222	-
Fair value adjustment of financial instruments available for sale	-	9
Sundry income	277	366
Total financial income	1,753	449

Financial income in the financial period ended 31 December 2009 was mainly affected by:

- realised foreign exchange gains of Euro 1,052 thousand whose balance in 2009 was zero.
- the positive value of the fair value adjustment of derivative instruments (interest-rate hedging of medium to long-term loans) of Euro 222 thousand that mainly refer to the hedging carried out on the BNL ,8 year, mortgage loan contracted by the Company in June 2010.

35. Related party transactions

The following schedule gives details of transactions in P&L and Balance Sheet due from/towards related parties. The companies listed below have been identified as related parties as they are linked directly or indirectly to the current shareholders of Tesmec S.p.A.:

	Financial period ended 31 December					31 December					
	2010					2010					
(in thousands)	Revenues	Costs of raw materials	Costs for services	Other operating (costs)/ revenues, net	Financial expenses and share of profit/loss	Non-current financial assets	Trade receivables	Current financial receivables	Other current assets	Current financial liabilities	Trade payables
Subsidiaries:											
Tesmec Balkani E.O.D. (former Tesmec Beta A.D.)	-	-	-	-	4	-	-	177	-	-	-
Tesmec Service S.p.A.	683	-	(204)	-	-	-	769	-	-	-	204
Tesmec USA, Inc.	776	(5,627)	(18)	(3)	(250)	-	109	-	-	2,208	1,260
Subtotal	1,459	(5,627)	(222)	(3)	(246)	-	878	177	-	2,208	1,464
Associated companies:											
East Trencher S.r.l.	-	-	(25)	-	-	-	-	-	-	-	7
Locavert S.A.	130	-	-	-	-	-	30	-	-	-	-
Sibtechmash	-	-	-	-	-	-	15	-	-	-	-
Subtotal	130	-	(25)	-	-	-	45	-	-	-	7
Joint ventures:											
Condux Tesmec Inc.	3,267	-	146	-	-	-	1,854	-	-	-	-
Subtotal	3,267	-	146	-	-	-	1,854	-	-	-	-
Related parties:											
Ambrosio S.r.l.	-	-	-	(13)	-	-	-	-	-	-	4
Caterina Caccia Dominioni, Lawyer	-	-	(4)	-	-	-	-	-	-	-	-
Matteo Caccia Dominioni	-	-	(45)	-	-	-	-	-	-	-	20
CBF S.r.l.	-	-	-	(378)	1	-	-	-	-	-	-
Ceresio Tours S.r.l.	-	-	(14)	-	-	-	-	-	-	-	1
Dream Immobiliare S.r.l.	-	-	-	(311)	-	-	-	205	207	-	1
Eurofidi S.p.A.	-	-	-	-	-	-	-	2	-	-	-
FI.IND S.p.A.	-	-	(45)	-	14	-	16	-	-	-	47
Jaeggli Meccanotessile S.r.l.	-	-	(3)	-	2	-	2	-	-	-	4
Jaeggli S.p.A.	-	-	-	-	-	-	4	-	-	-	-
Lame Nautica S.r.l.	9	-	-	-	-	-	4	-	-	-	-
M.T.S. Officine Meccaniche S.p.A.	939	(1)	(203)	(2)	1	-	606	-	-	-	-
Reggiani Macchine S.p.A.	-	-	134	(439)	21	-	448	-	220	-	-
Subtotal	948	(1)	(180)	(1,143)	39	-	1,080	207	427	-	77
Total	5,804	(5,628)	(281)	(1,146)	(207)	-	3,857	384	427	2,208	1,548

In particular, for the financial period ended 31 December 2010, the breakdown of each related party is indicated below:

- Tesmec USA Inc: Revenues and Costs of materials refer to mutual sales transactions concerning machines and spare parts. Financial expenses refer to the remuneration of a current account balance that reported during the year a credit situation of Tesmec USA towards Tesmec spa;
- Tesmec Service S.p.A.: the subsidiary will carry out all the rental or service activities of the Group. Revenues of Tesmec to the subsidiary refer to the sale of a trencher, a rental contract and the sale of 2 machines for the stringing equipment that are currently rented by the Tesmec Service to third parties; costs for services include a cost recharging by the subsidiary;
- Tesmec Balkani E.O.D. (former Tesmec Beta A.D.): the operations of the subsidiary in 2010 were low and it was financed by the Company at market rates;
- East Trenchers S.r.l.: the associate started its operations at the end of 2010; its activity will consist of rental/service. The transactions with the associate occurred at market prices and market terms of payment;
- Locavert SA: the French associate purchases normally trenchers/spare parts for rental business at market prices and market terms of payment;
- Condux Tesmec: JV purchases stringing machines and equipment for sale on the American market at market prices and market terms of payment;
- Ambrosio S.r.l.: costs for services refer to the rental for the registered office of Milan;
- M.T.S. Officine Meccaniche S.p.A.: revenues refer to sales of semi-finished products for the textile industry made by the Tesmec machine shop of Sirone; costs for services refer to the sharing of administrative personnel and services relevant to the same plant;
- Reggiani Macchine S.p.A.: "Costs for services" mainly refers to the costs related to users for a total amount of Euro 113 thousand and whose counter-item is recorded in "Trade payables"; "Other operating costs" mainly concerns the cost for the lease of the building of Grassobbio (Euro 436 thousand);
- C.B.F. S.r.l.: "Other operating costs" includes the cost for the lease of the building of Sirone of Euro 378 thousand;
- Dream Immobiliare S.r.l.: "Other operating costs" includes the cost for the lease of the building of Endine for Euro 309 thousand;

The financial receivables from related parties as at 31 December 2009 were fully recovered.

(€ in thousands)	Financial period ended 31 December					31 December					
	2009					2009					
	Revenues	**Costs of raw materials**	**Costs for services**	**Other operating (costs)/ revenues, net**	**Financial expenses and share of profit/loss**	**Non-current financial assets**	**Trade receivables**	**Current financial receivables**	**Other current assets**	**Current financial liabilities**	**Trade payables**
Subsidiaries:											
Tesmec Balkani E.O.D. (former Tesmec Beta A.D.)	-	-	(164)	-	-	-	-	218	-	-	-
Tesmec Service S.p.A.	-	-	-	-	3	-	-	-	-	-	121
Tesmec USA, Inc.	3,276	(2,905)	31	(70)	101	-	180	3,253	-	-	31
Subtotal	3,276	(2,905)	(133)	(70)	104	-	180	3,471	-	-	152
Associated companies:											
East Trencher S.r.l.	-	-	-	-	-	-	-	-	-	-	-
Locavert S.A.	108	-	-	-	-	-	20	-	-	-	-
Sibtechmash	-	-	-	-	-	-	14	-	-	-	-
Subtotal	108	-	-	-	-	-	34	-	-	-	-
Joint ventures:											
Condux Tesmec Inc.	2,657	-	76	-	-	-	2,391	-	-	-	-
Subtotal	2,657	-	76	-	-	-	2,391	-	-	-	-
Related parties:											
Ambrosio S.r.l.	-	-	-	(13)	-	-	-	-	-	-	4
Caterina Caccia Dominioni, Lawyer	-	-	(22)	-	-	-	-	-	-	-	-
Matteo Caccia Dominioni	-	-	(49)	-	-	-	-	-	-	-	16
CBF S.r.l.	-	-	-	(264)	5	-	-	241	-	-	-
Ceresio Tours S.r.l.	-	-	(18)	-	-	-	-	-	-	-	7
Dream Immobiliare S.r.l.	-	-	-	(309)	-	-	-	-	-	-	-
FI.IND S.p.A.	-	-	(31)	-	57	-	-	2,001	-	-	-
Granilnord S.r.l.	-	-	(83)	-	-	-	-	-	-	-	-
Jaeggli Meccanotessile S.r.l.	-	-	1	-	7	-	-	302	-	-	4
Jaeggli S.p.A.	-	-	-	-	-	-	4	-	-	-	-
Lame Nautica S.r.l.	5	-	-	-	-	-	-	-	-	-	-
Lame S.r.l. with sole shareholder in liquidation	-	-	(10)	-	-	-	-	-	-	-	-
M.T.S. Officine Meccaniche S.p.A.	552	-	(444)	5	60	-	106	-	-	-	40
Nordef S.r.l.	12	-	-	-	8	-	-	-	-	-	-
Reggiani Macchine S.p.A.	-	-	148	(181)	42	1,211	510	430	-	-	14
Subtotal	569	-	(508)	(762)	179	1,211	620	2,974	-	-	85
Total	6,610	(2,905)	(565)	(832)	283	1,211	3,225	6,445	-	-	237

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

Year 2010:

Board of Directors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Ambrogio Caccia Dominioni	Chairman and Managing Director	450,000	80,000	530,000
Alfredo Brignoli	Vice Chairman	40,000		40,000
Gianluca Bolelli	Vice Chairman	50,000	20,000	70,000
Gianluca Vacchi	Director	12,000		12,000
Gioacchino Attanzio	Director	25,000		25,000
Guido Giuseppe Maria Corbetta	Director	12,000		12,000
Luca Poggi	Director	12,000		12,000
Michele Carlo Felice Milani	Director	50,000	150,000	200,000
Sergio Arnoldi	Director	20,000		20,000
Caterina Caccia Dominioni	Director and Secretary	25,000	3,500	28,500

Board of Statutory Auditors				
Name and Surname	Role	Fees (in Euro)	Bonus and other fees (in Euro)	Total fees
Simone Cavalli	Chairman	18,781		18,781
Stefano Chirico	Statutory Auditor	20,111		20,111
Sergio Arnoldi	Directors as from 23 February 2010	7,359		7,359
Claudio Melegoni	Statutory Auditor	23,332		23,332

Fees paid to executives with strategic responsibilities in the 2010 financial period amounted to Euro 528 thousand, whereas those paid to other members of the Caccia Dominioni family for the supply of personal services amounted to Euro 49 thousand.

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 considerations accrued in the financial statements ended 31 December 2009 for audit services and for other services rendered to the Company of the Tesmec Group by Reconta Ernst & Young and by the entities belonging to the Ernst & Young network.

	Independent Auditors that supplied the service	Accrued amount
(€ in thousands)		2010
Audit of the financial statements and consolidated financial statements	Reconta Ernst & Young S.p.A.	100
Certification services (1)	Reconta Ernst & Young S.p.A.	5
Other services (2)	Reconta Ernst & Young S.p.A.	755
Total		860

(1) This item refers to activities aimed at the signing of tax returns.

This item refers to services of IPO (comprehensive review of IFRS consolidated financial statements at 31 dicemre 2007,2008 and 2009, emissions Dawn Bring Comfort Letter Letter on 'Offering Memorandum and the Prospectus and the Memorandum on certification of management control).

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

Note that, pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, in 2008 the Group did not carry out any atypical and/or unusual operation, as defined by the Communication itself.

39. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2010 and 2009, they are summarised as follows:

	31 December	
(€ in thousands)	2010	2009
Risks		
- Sureties	2,892	3,494
Third-party assets held by the Group	3,720	1,589
Total commitments and risks	6,612	5,083

Risks

The recorded value concerns sureties provided by Tesmec SpA during the three-year period in favour of third parties granted through the mediation of some financial institutes such as BNL, Unicredit, Banca Intesa and others.

On the basis of the specific characteristics of the segments in which the Group 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 Balance Sheet.

Third-party assets held by the Group

The value refers to goods sold on bill and hold basis at 31 December 2010, its has not yet been withdrawn by the customer

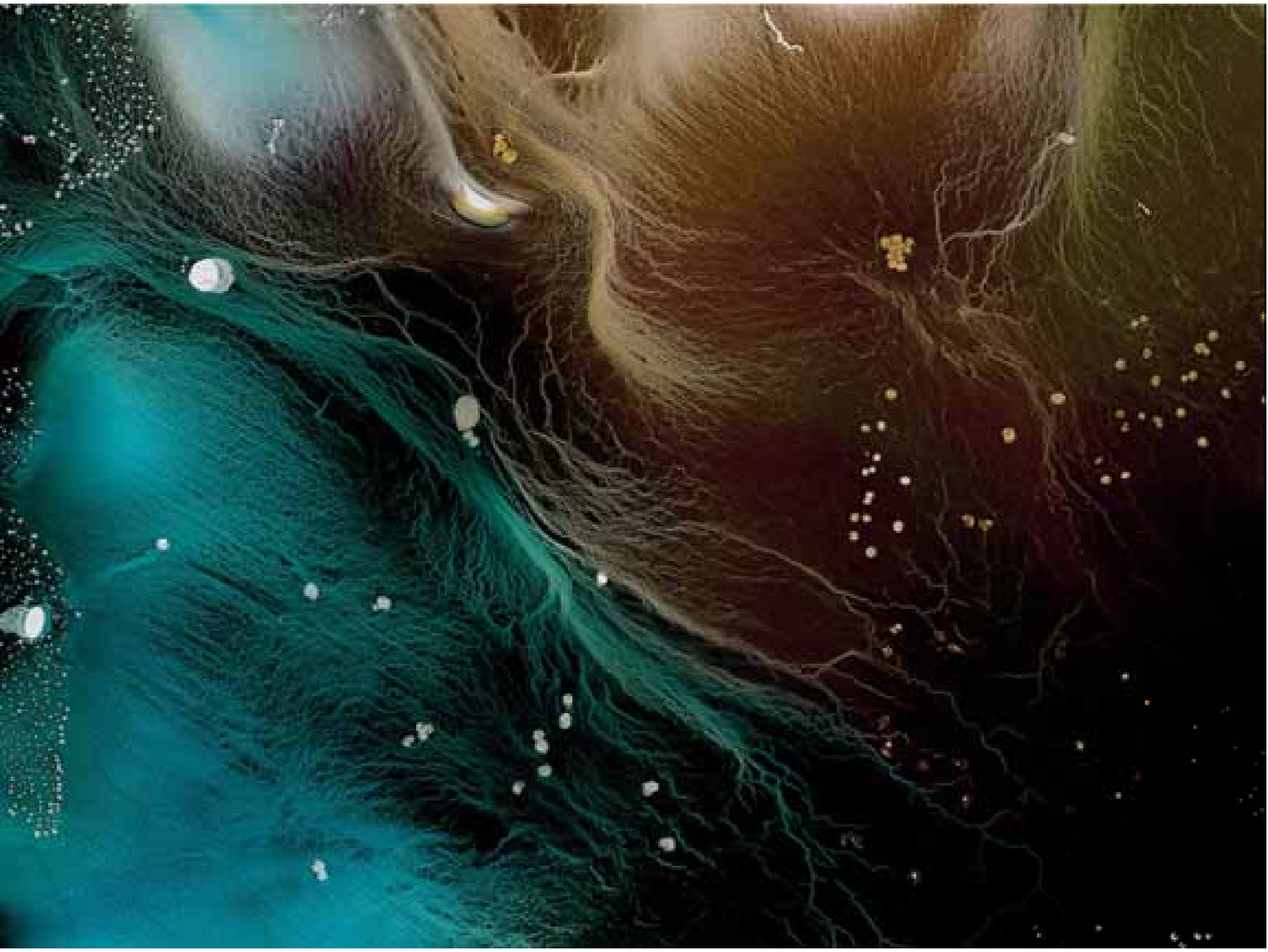
40. Significant events occurred after the close of the financial period

Significant events occurred after the close of the financial period are indicated below:

- On 18 January 2011, Tesmec S.p.A. acquired the share held by Mela Verde in Tesmec Beta AD, becoming the sole shareholder. On the same day, following the Shareholders' Meeting regularly convened, it changed its name in Tesmec Balkani EOD.
- on 31 January 2011 Tesmec dissolved the previous contract for the rental of the property of Grassobbio with Italease Gestioni spa and signed with Dream Immobiliare (related party) the new contract with a period of validity until 31 January 2025. The renewal of this contract implied for the Company an immediate 12% cost saving. In connection with the Lease contract, Tesmec signed with Dream Immobiliare an option contract for the purchase of the Leasing contract (the Option Contract assigns Tesmec the right to take over the Lease contract against an initial consideration already paid of Euro 2,700,000. This value may be increased according to the period within which the Company will exercise the option valid until 31 December 2016).
- Even if the operation is not legally qualifiable as acquisition, in view of the fact that such Lease contract belongs to the case provided by IAS 17, it will be represented as a leasing in the financial statements, as from the 2011 financial period, and therefore it will contemplate the registration of the value of the Industrial Complex - for the part of its area covered by the Company and subject-matter of the said Lease contract - in the consolidated and separate financial statements of Tesmec based on the present value of future payments due (equal to Euro 22.5 million), with the corresponding entry of its financial debt. This recording will improve the EBITDA (as defined above) by around Euro 2 millions and have a positive effect on the net income of around Euro 0.2 millions.
- on 4 March 2011, an agreement for a syndicated loan was closed successfully totalling Euro 21 million, organised by BNL-BNP PARIBAS Group, as arranger and lender with the participation of Banca Popolare di Milano, Intesa Sanpaolo spa, Unicredit, GE Capital Interbanca and Banca Popolare di Vicenza as lenders. The aim of the signed contract is to both refinance part of the existing debt (in particular, with reference to the debt existing in the

Tesmec USA subsidiary) and raise capital in view of new investments as well as to support the development and growth of the Group.

- on 7 March 2011 a joint-venture contract was signed with TME, already exclusive concessionaire - for a few years - of the trenchers of the Tesmec Group on the market of Qatar.
  The NewCo was called **Tesmec Peninsula** and will be **49%** held by **Tesmec S.p.A.** and 51% by the local shareholder (in particular 49% TME and 2% directly by Hamid Mustafawi. The Mustafawi family operates in the building industry via the QBC company). The joint-venture was created in order to have a direct presence on a particularly strategic market such as the Middle-East market, and will focus on the marketing activities of the trenchers of the Tesmec Group in the Arabic peninsula – with the exception of Qatar that will be directly followed by the TME partner – in addition to the acquisition of new service contracts related to the excavation works in all the Arabic peninsula.



ANNEX: TRANSITION TO INTERNATIONAL ACCOUNTING PRINCIPLES

The financial statements of Tesmec S.p.A. as at 31 December 2010 are the first complete financial statements prepared according to IAS/IFRS. The date of transition to IAS/IFRS of Tesmec is 1 January 2009.

The reconciliation statements accompanied by the related explanatory notes are set out below:

1) Reconciliation of shareholders' equity for the following dates:

- date of transition to IAS/IFRS (1 January 2009);
- end of the last reporting period in which the financial statements were prepared in accordance with the Italian accounting standards (31 December 2009).

2) Reconciliation of the profit and loss result for:

- end of the last reporting period in which the financial statements were prepared in accordance with the Italian accounting standards (31 December 2009).

The descriptive paragraphs of the decisions taken concerning the main additional exemptions established by IFRS 1, the methods for classifying the items provided for in the balance sheet and income statement format adopted in accordance with IAS 1 and compared with the opening balance-sheet items as at 1 January 2009 supplement the attached statements; the income statement for the 2009 financial period and the statement of financial position of the 2009 financial period have been prepared in accordance with the entire hierarchy of the pronouncements issued by IASB, including the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or by the previous Standing Interpretations Committee (SIC).
In the transition to IAS/IFRS, the estimates previously formulated in accordance with the Italian accounting standards were maintained, except that the adoption of the IAS/IFRS accounting standards did not request the formulation of estimates according to different methods.
With reference to the drawing up of opening balance sheet, subject to the exemptions set out later, the Tesmec SpA has:

- over all assets and liabilities whose recognition is required by IAS / IFRS;
- not recognized as assets or liabilities items for which registration is not permitted by IAS / IFRS;
- reclassified certain items of financial statements in accordance with IAS / IFRS;
- apply IFRS in measuring all recognized assets and liabilities.

Additional exemptions established by IFRS 1 benefited by the Company

- measurement of property, plant and equipment at fair value or, alternatively, at the deemed cost as replacement cost: the Company decided to use the deemed cost with regard to land and buildings, whereas it decided not to use this option for the other categories included in property, plant and equipment;
- business combinations: the Company decided not to retroactively apply IFRS 3 to business combinations that occurred before the date of transition to IFRS;
- employee benefits: the severance indemnity fund was determined on the date of transition based on actuarial calculations; the Company decided to record all actuarial gains and losses as at 1 January 2009.

Selected accounting treatments within the accounting options established by the IFRS:

- measurement of property, plant and equipment and intangible assets: after initial recognition, IAS 16 and IAS 38 establish that these assets can be measured at cost or at fair value. The Company decided to adopt the method of cost;
- inventories: in accordance with IAS 2, the cost of inventories must be determined by using the FIFO or weighted average cost method. The Company decided to use the weighted average cost method;

Reconciliation between Shareholders' Equity and Profit or loss from the financial statements prepared in accordance with the Italian standards and Shareholders' Equity and Profit or loss from IAS/ IFRS financial statements.

The differences resulting from the application of IAS/IFRS compared to the Italian standards on the opening financial position as at 1 January 2009 and on the financial statements as at 31 December 2009 of Tesmec S.p.A., are shown in the following reconciliation statement.

Each item is stated in the table before tax whereas its tax effects are stated inclusively in two separate adjustment items (deferred tax liabilities and assets).

(€ in thousands)	Notes	Shareholders' equity 1 January 2009	Net income 2009	Shareholders' equity 31 December 2009
In accordance with the previous accounting standards		19,940	3,633	21,580
IAS 38				
Reversal of intangible fixed assets	A	(1,664)	724	(940)
IAS 2				
Measurement at net realisable value of inventories	B	(525)	525	0
IAS 18				
Revenue recognition		(204)	204	0
IAS 19				
Employee benefits	C	518	(93)	425
IAS 32-39				
Adjustment to fair value of derivatives	D	(30)	31	1
IAS 37				
Contingent liabilities/Guarantee fund	E	(200)	200	0
IAS 37				
Other changes/Provisions for doubtful accounts		(72)	68	(4)
IAS 1				
Eliminating capital gains Business Combination Under Common Control	F	(6,435)	1,551	(4,884)
IAS 1				
Fair value adjustment of other transactions Under Common Control		(210)	70	(140)
IAS 12				
Deferred tax assets on adjustments for adapting to international accounting standards	G	2,794	(1,055)	1,739
IAS 12				
Deferred tax liabilities on adjustments for adapting to international accounting standards	G	(465)	(14)	(479)
IAS 17				
Recognition of financial leases		874	279	1,153
In accordance with the IFRS		14,321	6,123	18,451
Change		(5,619)	2,490	(3,129)

Explanatory notes - adjustments

(Note A) IAS 38 Intangible Assets

Certain items previously included in intangible assets do not meet the capitalisation requirements provided by the IAS / IFRS principles and in particular by IAS 38 – Intangible assets. The adjustments mainly concerned:

- leasehold improvements that are not separable are capitalised in accordance with Italian accounting standards;
- costs of research, development and extraordinary advertising borne by the Company and recorded as intangible assets, as provided by the Italian accounting standards;
- listing costs related to the listing project interrupted during the 2008 financial period, and recorded in 2007 and 2008 among interrupted costs for the purposes of Italian accounting standards. The only part considered recoverable and related to the current listing project was retained in the financial statements.

These intangible assets are not provided with recognition criteria established by IAS 38 and, therefore, have been reversed from the balance-sheet assets for IAS/IFRS purposes. This different accounting treatment implied the following effects:

(*€ in thousands*)	Shareholders' equity 1 January 2009	Net income 2009	Shareholders' equity 31 December 2009
Writing-off of research, development and advertising costs	(159)	76	(83)
Writing-off of leasehold improvements	(919)	(48)	(967)
Writing-off of listing costs	(586)	696	110
Total effect of reversal of intangible assets	(1,664)	724	(940)

(Note B) IAS 2 Inventories

In order to reflect the actual realisable value in accordance with IAS 2, the Company decided to write down the inventories recorded in the financial statements for a total value Euro 525 thousand. Following the recognition of specific inventory write-downs carried out by the Company, the effect of the initial adjustment is completely reabsorbed on the IFRS Financial Statements as at 31 December 2009 generating a positive effect on the 2009 income statement of Euro 525 thousand.

(Note C) IAS 19 Employee benefits

Italian accounting standards require to recognise the liability for the employee severance indemnity (TFR) on the basis of the nominal loan accrued in accordance with the provisions of the Italian Civil Code in force at the end of the reporting period; in accordance with IAS/IFRS, the employee severance indemnity is part of the defined benefit plans subject to actuarial measurements (death, predictable salary changes, etc.) in order to express the present value of the post-employment benefit that the employees accrued at the end of the reporting period.

For IAS/IFRS purposes, all actuarial gains and losses were recognised at the date of transition to IAS/IFRS. The application of this different accounting treatment implied the effects indicated in the previous reconciliation.

(Note D) IAS 39 Measurement of derivatives

To minimise the risks of fluctuating interest and foreign-exchange rates, derivative contracts were concluded using the instruments offered by the market.

In particular, in order to reduce the risks related to the fluctuation in interests rates on existing loans, "interest rate swap" contracts were signed by the parent company on loan contracts.

For IAS /IFRS purposes, in order to verify whether such instruments have the requirements to be defined as hedging instruments, the company carried out at the end of each reporting period the effectiveness test, and as a result of the negative results it recorded these financial instruments at fair value by charging the change directly to the income statement. It should be noted that transactions in derivative financial instruments concluded by Tesmec S.p.A. cannot be considered hedging instruments as their characteristics do not meet the requirements of IAS 39. Therefore, all derivative financial instruments were recorded in the financial statements on the basis of their fair value, without any additional record related to hedge accounting.
The effect on shareholders' equity of the adjustment to fair value of contracts outstanding at 1 January 2009 was negative for Euro 30 thousand. The effects are indicated in the previous reconciliation, including those to the income statement.

(Note E) IAS 37 Provisions, Contingent Liabilities e Contingent Assets

As at 1 January 2009, provisions were allocated in accordance with IAS 37 for a total value of Euro 200 thousand before tax mainly related to the provision of guarantees. The effect of the initial adjustment is completely reabsorbed during 2009 by generating positive impacts on the income statement of Euro 200 thousand.

(Note F) IAS 1 Eliminating capital gains related to transactions carried out among companies under common control

International Accounting Standards do not prescribe the accounting treatment of business combinations carried out among companies under common control, which are explicitly excluded from the scope of IFRS 3.

Moreover, the practice and the prevailing interpretations establish that these transactions are recognised in continuity of values with the writing-off of any emerging capital gain decreasing the shareholders' equity. In particular, the application of the principle of continuity of values gives rise to the recognition in the balance sheet of values equal to those that would result if the companies or business units being combined had always been merged. The net assets of the acquired entity and of the acquiring entity must be recognised at their book values in the corresponding accounts before the transaction. As a result of the extraordinary transactions carried out during the 2007 financial period, the Company has written off most of the assets accounted for following the acquisition of two business units, using the Shareholders' equity as a counter-item.

The breakdown of operations defined as business combination of entities under common control is set out below:

- the acquisition, by Tesmec S.p.A., of the business unit related to the assembly, machining and maintenance of the robotised machines, from Reggiani Macchine S.p.A, subsidiary 77% controlled by the FI.IND Group, under the control of the same shareholder of reference of Tesmec S.p.A, was completed on 1 June 2007. The consideration for the transfer amounted to Euro 2,044 thousand, and was settled by paying Reggiani Macchine S.p.A Euro 1,130 thousand, and by setting off a payable of Reggiani Macchine S.p.A. with regard to Tesmec S.p.A. of Euro 914 thousand. The book value of the net assets transferred on 1 June 2007 is negative and totals Euro 66 thousand.

- the acquisition, by Tesmec S.p.A., of the business unit related to the production of textile machines and to precision machining on behalf of third parties, from MTS Officine Meccaniche di Precisione S.p.A, one of the main suppliers of the Company, under the control of the same shareholder of reference of the Tesmec Group, was completed on 31 December 2007. The consideration paid amounted to Euro 431 thousand. The book value of the net assets transferred on 31 December 2007 is negative and totals Euro 3,058 thousand.

- the acquisition, by Tesmec S.p.A., of the business unit related to Tesmec Service S.p.A, yet Gallotti S.p.A.,, and under the control of the same shareholder of reference of the Tesmec Group, was completed on October, 7th 2008. The consideration paid amounted to Euro 1,126 thousand. The book value of the net assets transferred on October, 1st 2008 is positive Euro 416 thousand.

The effects on the mentioned different accounting treatment for the operations described are broken down below:

(in thousands)	Shareholders' equity 1 January 2009	Net income 2009	Shareholders' equity 31 December 2009
MTS Business Unit			
Writing-off of goodwill	(400)	100	(300)
Writing-off of Know how	(400)	100	(300)
Writing-off of Patents	(120)	40	(80)
Writing-off of Capital gains from Property, plant and equipment	(365)	41	(324)
Writing-off of Capital gains from Leased machines	(1,978)	208	(1,770)
Reggiani Business Unit			
Writing-off of goodwill	(120)	40	(80)
Writing-off of Capital gains from Property, plant and equipment	(1,332)	592	(740)
Gallotti Business Unit			
Writing-off of goodwill	(40)	10	(30)
Writing-off of Know how	(1,680)	420	(1,260)
Overall effect "business combination of entities under common control"	(6,435)	1,551	(4,884)

(Note G) IAS 12 Taxes

The adjustments shown in the table with reference to deferred tax assets/liabilities are related to the recognition of the effects on the adjustments consequent to the transition to IAS/IFRS.

IAS/IFRS Statement of Financial Position as at 1 January 2009 and as at 31 December 2009, income statement as at 31 December 2009

The balance-sheet statements as at 1 January 2009 and as at 31 December 2009, and the 2009 income statement are attached to supplement the statements of reconciliation of shareholders' equity and of the net income, accompanied by the comments to the adjustments made to the balances prepared in accordance with the Italian accounting standards:

- the values according to Italian accounting principles reclassified in accordance with the IAS/IFRS formats;
- the values of the reclassifications carried out as a result of the different accounting treatments required by IAS/IFRS, indicating the relevant explanatory note;
- the values of the adjustments made as a result of the application of the IAS/IFRS compared to the Italian accounting standards indicating the relevant explanatory note;
- final values in accordance with IAS/IFRS.

To comment the adjustments made within the balance sheet and income statement format, reference is made to the corresponding explanatory notes indicated in the paragraph “Reconciliation between Shareholders' Equity and Profit or loss from the financial statements prepared in accordance with the Italian standards and Shareholders' Equity and Profit or loss from IAS/ IFRS financial statements” of this report.

Statement of Financial Position as at 1 January 2009

(€ in thousands)	Previous standards	Change		Values in accordance with IFRS
		Reclassifications	Adjustments	
NON-CURRENT ASSETS				
Intangible assets	9,424	(991)	(4,634)	3,799
Property, plant and equipment	5,178	-	413	5,591
Equity investments in subsidiaries	5,282	-	-	5,282
Equity investments in associates	180	-	-	180
Other equity investments	2	-	-	2
Financial receivables and other non-current financial assets	5	-	-	5
Derivative financial instruments	-	-	-	-
Deferred tax assets	476	-	2,794	3,270
TOTAL NON-CURRENT ASSETS	20,547	(991)	(1,427)	18,129
CURRENT ASSETS				
Inventories	29,981	-	(525)	29,456
Trade receivables	22,629	925	(204)	23,350
Tax receivables	1,852	(1,842)	-	10
Available-for-sale securities	105	-	-	105
Financial receivables and other current financial assets	5,646	-	(72)	5,574
Other current assets	5,639	2,693	(3,016)	5,316
Derivative financial instruments	-	-	-	-
Cash and cash equivalents	1,370	-	-	1,370
TOTAL CURRENT ASSETS	67,222	1,776	(3,817)	65,181
TOTAL ASSETS	87,769	785	(5,244)	83,310
SHAREHOLDERS' EQUITY				
Share capital	9,058	-	-	9,058
Reserves	6,327	-	(5,619)	708
Profit (loss) for the period	4,555	-	-	4,555
TOTAL SHAREHOLDERS' EQUITY	19,940	-	(5,619)	14,321
NON-CURRENT LIABILITIES				
Interest bearing financial payables	11,716	(140)	158	11,734
Derivative financial instruments	207	-	-	207
Employee benefit liability	3,862	-	(518)	3,344
Deferred tax liabilities	-	-	442	442
Provisions for risks and charges	-	-	-	-
Other non-current liabilities	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	15,785	(140)	82	15,727
CURRENT LIABILITIES				
Interest bearing financial payables (current portion)	24,804	925	62	25,791
Derivative financial instruments	3	-	-	3
Trade payables	22,024	-	-	22,024
Advances from customers	1,712	-	-	1,712
Income taxes payable	642	-	-	642
Provisions for risks and charges	400	-	200	600
Other current liabilities	2,459	-	31	2,490
TOTAL CURRENT LIABILITIES	52,044	925	293	53,262
TOTAL LIABILITIES	67,829	785	375	68,989
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	87,769	785	(5,244)	83,310

Statement of Financial Position as at 31 December 2009

(€ in thousands)	Previous standards	Change		Values in accordance with IFRS
		Reclassifications	Adjustments	
NON-CURRENT ASSETS				
Intangible assets	9,541	(1,332)	(3,130)	5,079
Property, plant and equipment	10,083	-	136	10,219
Equity investments in subsidiaries	4,443	-	-	4,443
Equity investments in associates	1,151	-	-	1,151
Other equity investments	2	-	-	2
Financial receivables and other non-current financial assets	1,214	-	-	1,214
Derivative financial instruments	-	-	-	-
Deferred tax assets	751	-	1,739	2,490
TOTAL NON-CURRENT ASSETS	27,185	(1,332)	(1,255)	24,598
CURRENT ASSETS				
Inventories	25,141	-	-	25,141
Trade receivables	25,550	978	-	26,528
Tax receivables	2,453	(1,385)	-	1,068
Available-for-sale securities	114	-	-	114
Financial receivables and other current financial assets	6,658	-	(4)	6,654
Other current assets	772	2,564	(229)	3,107
Derivative financial instruments	-	-	-	-
Cash and cash equivalents	1,354	-	-	1,354
TOTAL CURRENT ASSETS	62,042	2,157	(233)	63,966
TOTAL ASSETS	89,227	825	(1,488)	88,564
SHAREHOLDERS' EQUITY				
Share capital	9,058	-	-	9,058
Reserves	8,890	-	(5,620)	3,270
Profit (loss) for the period	3,633	-	2,490	6,123
TOTAL SHAREHOLDERS' EQUITY	21,581	-	(3,130)	18,451
NON-CURRENT LIABILITIES				
Interest bearing financial payables	10,559	(143)	1,338	11,754
Derivative financial instruments	212	-	-	212
Employee benefit liability	3,636	-	(425)	3,211
Deferred tax liabilities	361	-	479	840
Provisions for risks and charges	-	-	-	-
Other non-current liabilities	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	14,768	(143)	1,392	16,017
CURRENT LIABILITIES				
Interest bearing financial payables (current portion)	28,005	968	250	29,223
Derivative financial instruments	-	-	-	-
Trade payables	17,751	-	-	17,751
Advances from customers	2,829	-	-	2,829
Income taxes payable	1,708	-	-	1,708
Provisions for risks and charges	600	-	-	600
Other current liabilities	1,985	-	-	1,985
TOTAL CURRENT LIABILITIES	52,878	968	250	54,096
TOTAL LIABILITIES	67,646	825	1,642	70,113
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	89,227	825	(1,488)	88,564

Reclassifications

The main reclassifications deriving from the application of IAS/IFRS as to the Italian accounting standards on the balance sheet of the financial statements as at 31 December 2008 of the Company concern:

- listing costs of Euro 851 thousand as at 31 December 2008 reclassified from "Intangible Assets" to "Other current assets";
- the net value of the costs incurred to obtain the JP Morgan loan of Euro 140 thousand and recorded as intangible assets was reclassified by decreasing the non-current portion of long-term loans;
- the value of Land appurtenant to the buildings of Tesmec USA of Euro 166 thousand was separated from "Buildings" and classified separately as "Land";
- the recognition of trade payables transferred to the factor, with financial payables as counter-item. In particular, the amounts transferred and for which the risks of Euro 925 thousand as at 31 December 2008 still refer to the Company were recorded in the balance-sheet formats, since the existing factoring does not have all the requirements of IAS 39, paragraphs 20 and 21, for the purposes of derecognition of the financial assets from the financial statements;
- the reclassification of the item related to tax receivables represented by "VAT credit" in Other current assets of Euro 1,875 thousand as at 31 December 2008.

2009 Income Statement

(€ in thousands)	Previous standards	Change		Values in accordance with IFRS
		Reclassifications	Adjustments	
Revenues from sales and services	79,457	(146)	204	79,515
Cost of raw materials and consumables	(37,703)	11	525	(37,167)
Costs for services	(16,342)	25	1,104	(15,213)
Payroll costs	(12,514)	75	(93)	(12,532)
Other operating (costs)/revenues, net	(3,995)	-	499	(3,496)
Amortization and depreciation	(4,412)	35	1,590	(2,787)
Development costs capitalised	2,789	-	-	2,789
Total operating costs	(72,177)	-	3,625	(68,406)
Operating income	7,280	-	3,829	11,109
Financial expenses	(2,431)	-	(219)	(2,650)
Financial income	453	-	(4)	449
Pre-tax profits	5,302	-	3,606	8,908
Income taxes	(1,669)	-	(1,116)	(2,785)
Net profit for the period	3,633	-	2,490	6,123

Reclassifications

The main reclassifications resulting from the application of IAS/IFRS as to the Italian accounting standards on the income statement of the financial statements as at 31 December 2008 of the Company concern:

- Revenues deriving from the tax credit of Euro 146 thousand from "Revenues from sales" to "costs for services" (Euro 60 thousand), "cost of raw materials" (Euro 11 thousand) and "personnel costs" (Euro 75 thousand).
- Amortization related to capitalised costs to obtain the JP Morgan loan from "amortization and depreciation" to "costs for services" of Euro 35 thousand.

Certificate of the financial statements pursuant to Article 81-ter of Consob Regulation no. 11971 of 14 May 1999 with further supplements and amendments

1. The undersigned Ambrogio Caccia Dominioni and Andrea Bramani, as the Chief Executive Officer and the Manager responsible for preparing the Company's financial statements, respectively, attest, considering also what is provided under Article 154-bis, sub-sections 3 and 4, of Italian Legislative Decree no. 58 of 24 February, 1998:

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

   of the administrative and accounting procedures for preparing the financial statements during the 2010 financial period.

2. We also attest that:

2.1 the financial statements as at 31 December 2010:

- have been prepared in accordance with IFRS as endorsed by the European Union, as provided by the EC Regulation No. 1606/2002 issued by the European Parliament and by the European Council on 19 July 2002.
- correspond to the amounts shown in the Company's accounts, books and records;
- provide a fair and correct representation of the financial conditions, results of operations and cash-flow of the Company.

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 the Company, together with a description of the main risks and uncertainties they incur.

Grassobbio, 14 March 2011

Dott. Ambrogio Caccia Dominioni
Chief Executive Officer

Dott. Andrea Bramani
The Manager responsible for preparing the Company's financial statements

BOARD OF STATUTORY AUDITORS REPORT

TESMEC S.p.A.

b. Registered Office in Milano (MI), Piazza Sant'Ambrogio, 16

Share Capital Euros 10,708,400 fully paid up

Vat Number and Tax Code 10227100152

c.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF THE LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

The Board of Auditors was appointed by the Shareholders' Meeting of Tesmec S.p.A. (the "Company") of 23 February 2010 and is composed by Simone Cavalli (Chairman), Claudio Melegoni and Stefano Chirico. We verified that the Statutory Auditors were in compliance with the relevant independence requirements, as set forth in Section 10.C.2 of Self-Regulatory Code of conduct of listed companies approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. The previous Board of Statutory Auditors was named by the Shareholders' Meeting of 27 April 2009 and was composed by Claudio Melegoni (Chairman), Stefano Chirico and Sergio Arnoldi.

The financial statements closed at 31 December 2010, presented for your approval, are the first prepared in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board and approved by the European Union according to the text published in the Office Journal of the European Communities (OJEC) and in force at 31 December 2010.

These are also the first financial statements presented to the shareholders following the listing of the Company shares in the STAR segment of the Milan Stock Exchange (MTA). We monitored the listing process and verified the legitimacy, propriety and timeliness of the various transactions, resolutions and formalities.

During the financial year closed at 31 December 2010 we performed the supervisory activities required by the law having regard to the standards of conduct of the Board of Statutory Auditors, recommended by the Italian Board of Certified Public Accountants and Accounting Experts, attending the meetings of corporate bodies, carrying out periodic checks and meetings with the Independent Auditors' manager of Reconta Ernst & Young S.p.A. (the "Independent Auditors"), the Control Committee, the members of the Supervisory Body established pursuant to Legislative Decree no. 231/2001 and the Manager responsible for preparing the company's financial statements, to exchange information on the activities undertaken by them and to assess the timetable of scheduled internal control operations.

Pursuant to article 153 of the Legislative Decree no. 58/1998, the Consolidated Law on Finance, (the "TUF") and article 2429 of the Italian Civil Code, as well as taking into account the indications supplied by CONSOB notice no. DEM/1025564 of 6 April 2001, as further amended and extended, we report the following:

- we monitored compliance with the law and the company's by-laws;
- the Directors provided us, with the required periodicity, information on the activities undertaken by them and the predicted evolution of the business, as well as on the most significant economic, financial and capital transaction carried out by the company and its subsidiaries, ensuring us that the same were in accordance with the law and the company's by-laws and were not manifestly imprudent or risky, in potential conflict of interest, in breach of the resolutions passed by the Shareholders' Meeting or susceptible of compromising the integrity of the company's assets and equity;
- we received from the Board of Directors the half-year financial report and the quarterly report, according to the law;

- we have not found, neither received indications from the Board of Directors, the Control Committee and the Independent Auditors regarding the existence of any atypical and / or unusual operation carried out with third parties, Group companies or related parties;
- the Directors have illustrated, in their report on operations attached to the financial statements of Tesmec S.p.A. and to the consolidated financial statements of the Tesmec Group and in the explanatory notes to them, the normal business operations carried out during the financial year with related parties or with companies belonging to the Group. We ask you to make reference to these documents regarding the matters that fall within our competencies and, specifically, regarding the description of the characteristics of the operations and their relative economic and equity impacts. With regard to such transactions, with the support of the Board of Directors and the Control Committee we have checked on the existence and the observance of procedures that are suitable for ensuring that these operations are carried out at market conditions and in the company's interest. Moreover, we monitored the conformity to the principles required by article 4, Paragraph 1, of the CONSOB Regulation, adopted with deliberation no. 17221 of 12 March 2010, (and successively modified with deliberation no. 17389 of 23 June 2010) concerning the Procedure for the Operation with Related Parties approved by the Board of Directors of Tesmec S.p.A. of 11 November 2010;
- the disclosures, concerning the intercompany transactions, provided in the section entitled "Related party transactions" of the explanatory notes to the consolidated financial statements of Tesmec Group and "Related party transactions" of the explanatory notes to the financial statements of Tesmec S.p.A., are suitable and implemented in the normal course of business on standard market terms;
- no complaints were received pursuant to article 2408 of the Italian Civil Code, or statements from third parties;

- we received from the Independent Auditors information about the hours worked and the total fee charged for the statutory audit of financial statements and consolidated financial statements of the company at 31 December 2010, as well as for the limited review to the half-year report and for control activities of the correct social bookkeeping;

- the information received from the Independent Auditors indicates that in the financial year, especially in connection to the IPO, assignments were conferred by Tesmec S.p.A. for a total fees amounting to Euro 760 thousand, in addition to those pertaining to the statutory audit, as follows:

  - audit of the IFRS consolidated financial statements for the financial years closed at 31 December 2007, 2008 and 2009, and limited review of the consolidated financial statements for the three months period closed at 31 March 2010, with fees amounting to Euro 65 thousand;

  - assistance to the financial department for the conversion process to the IFRS principles of the consolidated financial statements closed at 31 December 2007, 2008 and 2009 and the consolidate financial statements for the three months period closed at 31 March 2009 and 2010, with fees amounting to Euro 125 thousand;

  - issuing of the Comfort Letters and the Bring-Down Letters on Offering Memorandum and Prospectus and the related activities (i.e. carrying out the post report review procedures and checking the financial data included in the Offering Memorandum and Prospectus), with fees amounting to Euro 180 thousand;

  - assistance to the financial department for the drafting of the Offering Memorandum and Prospectus and in the arrangement of the F – Pages, with fees amounting to Euro 160 thousand;

  - attestation on the Memorandum on Certification of Management Control, according to the international auditing standard ISAE 3000, with fees amounting to Euro 180 thousand;

- assistance to the update of the Organizational Model according to the Legislative Decree no. 231/2001 and to the accounting and administrative procedures (Law no. 262/2005), with fees amounting to Euro 45 thousand;
- signing of tax returns, with fees amounting to Euro 5 thousand.

- we received notice confirming the independence of the Independent Auditors responsible for the statutory audit according to article 17, paragraph 9, letter a), of the Legislative Decree no. 39/2010. We did not found situation that have compromised the independence or the occurrence of incompatibility. In addition, we discussed with the Independent Auditors about their independency and the measures taken to mitigate those risks;
- we received from the Independent Auditors the report required by article 19, Section 3, of the Legislative Decree no. 39/2010, which shows that, based on the work performed, no "fundamental issue" or "material shortcomings in the system of internal controls concerning the financial disclosure process" were identified;
- we monitored the effectiveness of the auditing process, reviewing the audit plan and discussing the work performed;
- the Independent Auditors issued on 29 March 2011 their opinions on the statutory and consolidated financial statements. These opinions are unqualified thereby attesting that the same are in accordance with the rules governing financial statements;
- during the year we rendered our opinions as provided for by law;
- no significant aspects or issues worthy of mention arose during the evaluation of the professional requisites of the Manager responsible for preparing the company's financial statements pursuant to article 154-bis, paragraph 1 of the TUF;

- no significant aspects or issues worthy of mention arose during the evaluation of the compensation of the Directors with specific assignments, pursuant to article 2389, paragraph 3, of the Italian Civil Code;
- during the year we verified that, the company has established the effective independence of the Directors qualified as "independent" based on the rules of the Self-Regulatory Code of conduct of listed companies approved by the Corporate Governance Committee and pursuant to article 147-ter, paragraph 3 and 4 of the TUF;
- during the financial year we have attended 6 meetings of the current Board of Directors, as well as 1 meeting of the previous Board of Directors. In the same period the Board of Statutory Auditors met 11 times, 3 of which were in joint meeting with the Control Committee;
- we have acquired knowledge and watched over, insofar as this falls within our competencies, that the principles of correct administration have been observed, the adequacy of the organizational structure and the directives issued by the company to its subsidiaries, pursuant to article 114, paragraph 2, of the TUF, through direct observation, getting information from the managers of the company, meetings with the Independent Auditors, the Manager responsible for preparing the company's financial statements and with the Manager responsible for internal control for the purposes of a reciprocal exchange of relevant data and information;
- we have acquired knowledge and watched over, insofar as this falls within our competencies, pursuant to article 19 of the Legislative Decree no. 39/2010, the adequacy and the effectiveness of the internal controls system and the risk management, as well as on the activities of the relative responsible and the administration/accounting system, on the dependability of this system to correctly reflect operational events, by obtaining information from functional managers, by examining the company documents and the work carried out by the Independent Auditors, by attending the meetings with the Control Committee and through meetings with the Manager responsible for preparing the Company's

financial statements, as well as with the Manager responsible for internal control and the Executive Director responsible for the internal control system;

- no significant aspects or issues worthy of mention arose during the meeting held with the same bodies in the subsidiary companies, where were not already present members of the Board of Statutory Auditors;

- no significant aspects or issues worthy of mention arose during the meeting held with the Independent Auditors pursuant to article 150, paragraph 3, of the TUF;

- we checked the procedures for the proper implementation of the rules of corporate governance entrenched in the Self-Regulatory Code of conduct of listed companies approved by the Corporate Governance Committee adopted by the Board of Directors in the meeting of 23 February 2010. In the meeting of 5 August 2010 the Board of Directors of Tesmec S.p.A. declared TESMEC USA Inc., as *"strategically significant subsidiary"*;

- through direct checks and information obtained from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, we oversaw compliance with statutory provisions pertaining to the preparation and layout of the consolidated financial statements of the Tesmec Group, the financial statements of Tesmec S.p.A. and the report on operations. Our oversight activities did not reveal any facts warranting a report to internal control bodies or worthy of mention in this report;

- for the purpose of aligning the internal control systems laid down by the Legislative Decree no. 231/2001 and in conformity with the contents of Article 2.2.3, third paragraph, letter k) and 2.2.3, of the Stock Exchange Regulations, the Board of Directors of the company approved, in its meeting of 23 February 2010, the Organizational Model and the Ethical Code contained in Article 6 of the Legislative Decree no. 231/2001. The Supervisory Body has related on the carried out activities without evidence of specific violations of the Organizational Model;

- in the section of the report on operations entitled “Main risks and uncertainties to which the Tesmec Group is exposed”, the Directors highlight the risk factors and uncertainties than may significantly affect the activity of the Tesmec Group. In particular, in the same section, are supplied some information tending to illustrate the aims and policies of the Group on price, financial risk management, as well as, tending to indicate the degree of exposure to credit risk and cash-flow variation risks;
- in the section of the report on operations entitled “Significant events occurred after the close of the financial period”, the Directors describe the procedure and the financial and economic effects of the lease contract negotiated by the Group’s Parent Company Tesmec S.p.A. with the related party Dream Immobiliare S.r.l., in order to guarantee the availability of the property of Grassobbio (BG) until 31 January 2025.

Taking into account what has been referred to above, within the matters falling within our purview, we have not found any reasons hindering the approval of the financial statements for the year end closed at 31 December 2010, as well as the proposal for the appropriation of the year’s net income and the dividend distribution, contained in the report on operations prepared by the Board of Directors.

Grassobbio, 30 March 2011

The Board of Statutory Auditors

Simone Cavalli - Chairman

Claudio Melegoni – Active Statutory Auditor

Stefano Chirico – Active Statutory Auditor

INDIPENDENT AUDITOR'S REPORT

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

To the Shareholders
of Tesmec S.p.A.

1. We have audited the financial statements of Tesmec S.p.A. as of and for the year ended December 31, 2010, comprising the statement of financial position, income, comprehensive income, the statement of changes in equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Tesmec S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements have been prepared for the first time in accordance with International Financial Reporting Standards as adopted by European Union.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   The financial statements present the comparative data of the preceding year prepared in accordance with the same accounting principles. In addition, the explanatory note n.41 shows the effects of the transition to International Financial Reporting Standards as adopted by European Union. The information presented in such note was examined by us for the purpose of expressing an opinion on the financial statements as of December 31, 2010.

3. In our opinion, the financial statements of Tesmec S.p.A. at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Tesmec S.p.A. for the year then ended.

4. The management of Tesmec S.p.A. is responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) presented in the Report on Corporate Governance and Ownership Structure, as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) presented in the Report on Corporate Governance and Ownership Structure , are consistent with the financial statements of Tesmec S.p.A. as of December 31, 2010.

Milan, March 29, 2011

Reconta Ernst & Young S.p.A.
Signed by: Paolo Zocchi, Partner

ANNEX

Annex A

List of investments held at December 31, 2010 by Tesmec and statement of changes during financial year 2010

The following is the list of investments held as at 31 December 2010, which includes, under Article 126 of Consob Regulation 11971/99, the shares in unlisted companies with shares or limited liability company, in more than 10% of the capital.

BREAKDOWN OF CHANGES IN INVESTMENTS MADE DURING THE FISCAL YEAR 2010

	December, 31 2009			Increase		Decrease		December, 31 2010		
Company	**Quantity**	**%**	**Value**	**Quantity**	**Cost**	**Quantity**	**Cost**	**Quantity**	**%**	**Value**
Subsidiaries consolidated										
Tesmec USA Inc.	940.735	100,00%	4.000.185	7.009.265	9.806.908	-	-	7.950.000	75,00% (1)	13.807.093
Tesmec Service S.p.A.	120.000	100,00%	325.882	-	-	-	-	120.000	100,00%	325.882
Tesmec Balkani E.O.D. (former Tesmec Beta AD)	3.300	66,00%	117.000	-	86.000	-	-	3.300	66,00%	203.000
Total			4.443.067							14.335.975
Subsidiaries consolidated by equity method										
Zao Sibtechmash	12.272	20,00%	122.636	-	-	-	-	12.272	20,00%	122.636
Locavert S.A.	20.525	38,63%	52.000	-	-	-	-	20.525	38,63%	52.000
East Trenchers S.r.l.	-	0,00%	-	7.200	7.200	-	-	7.200	24,00%	7.200
Consorzio Lombartech	15.000	19,23%	15.000	-	-	-	-	15.000	19,23%	15.000
Condux Tesmec Inc.	250	50,00%	955.763	-	-	-	-	250	50,00%	955.763
Consorzio TR S.c.a.r.l.	5.000	50,00%	5.000	-	-	-	-	5.000	50,00%	5.000
Total			1.150.399							1.157.599

(1) As a result of increase in the capital took place on January 18, 2010, the company Tesmec U.S.A Inc controlled 75% by Tesmec SpA and 25% by Simest S.p.A.. Because the contract includes an option to repurchase the shares from Simest toTesmec, the value includes the amount of Euro 3,696 thousand. For more details, see Note 6 of the Explanatory Notes to the financial statements to Tesmec S.p.A..

60 YEARS ANNIVERSARY

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