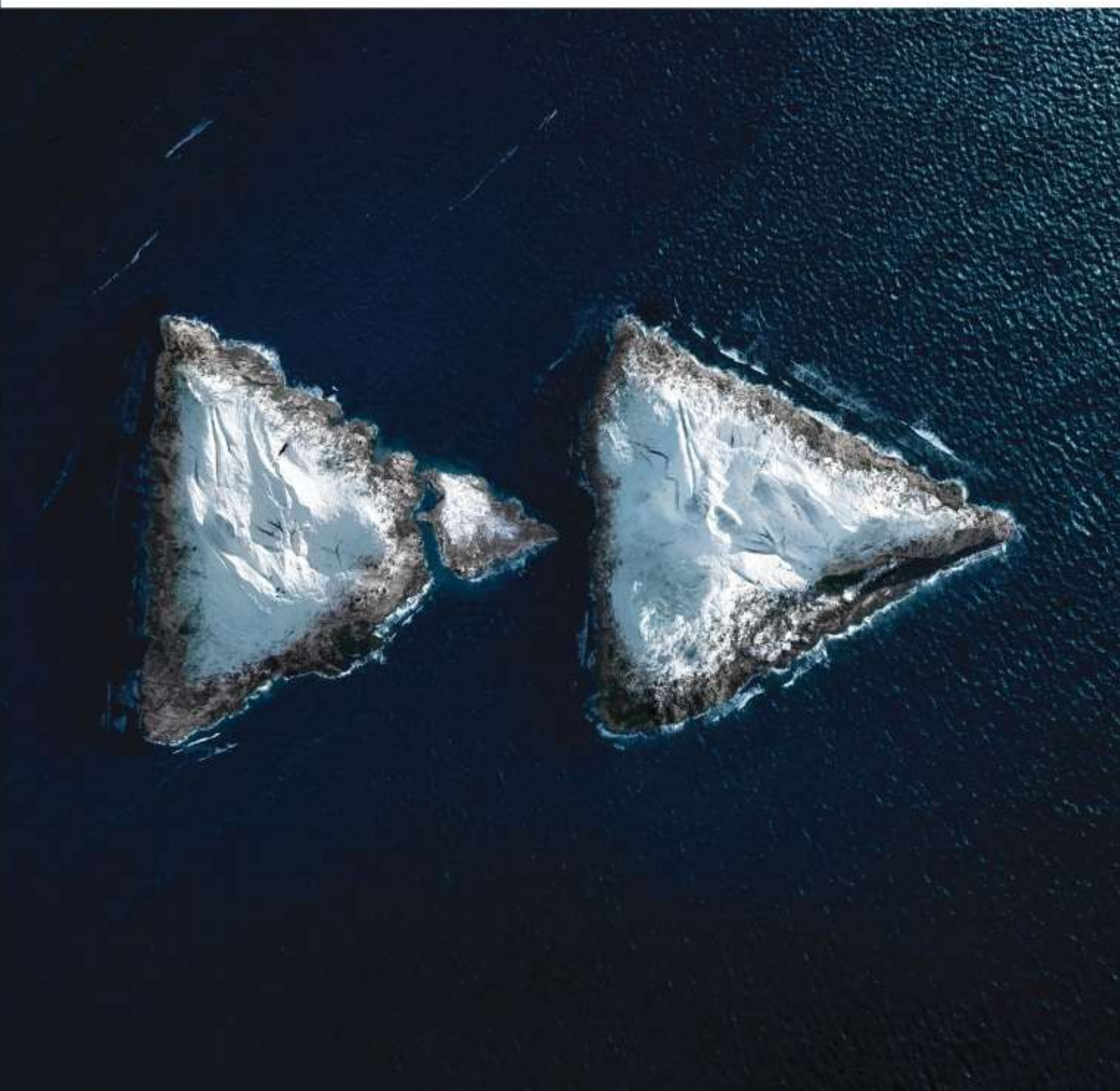




Annual Financial Report 2011



Investor Relator
Marco Cabisto
Tel: 035.4232840 - Fax: 035.3844606
e-mail: marco.cabisto@tesmec.it

Tesmec S.p.A.
Registered office: Piazza Sant'Ambrogio, 16 - 20123 Milan
Fully paid up share capital as at 31 December 2011 Euro 10,708,400
Milan Register of Companies no. 314026
Tax and VAT code: 10227100152

Internet site: www.tesmec.com
Switchboard: 035.4232911

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NOTICE OF CALL

CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The shareholders are convened to the ordinary meeting at Borsa Italiana S.p.A. (Palazzo Mezzanotte, Piazza Affari, 6, Milan) on 26 April 2012 at 10.00 a.m. in first call, and if necessary, in second call on 7 May 2012, at the same place and time, to deliberate on the following:

AGENDA

1. Review and approval of the financial statements as at 31 December 2011 and relevant reports; allocation of profit or loss for the period; related and consequent resolutions.
2. Consultation on the first section of report on remuneration pursuant to art. 123-ter paragraph 6 of Legislative Decree no. 58/1998.

Attending the Shareholders' Meeting

Pursuant to the law, those who have the right to vote may attend the Shareholder's Meeting. The right to speak and to vote in the Shareholders' Meeting is established by a notification to the Company, carried out by the intermediary, in favour of the person who has the right to vote, on the basis of evidences at the end of the accounting day of the seventh day of open market before the date fixed for the Shareholders' Meeting in first call (record date), coinciding with 17 April 2012. Therefore, those who will be the holders of the shares only after the record date mentioned above will not have the right to attend and vote at the Shareholders' Meeting.

Share capital

The share capital of TESMEC totals Euro 10,708,400.00 represented by 107,084,000 ordinary shares. Each share has one voting right in the ordinary and extraordinary shareholders' meetings of the Company. The shares are nominative, indivisible, freely transferable and, pursuant to art. 9 of the bylaws, each of them is entitled to one vote at ordinary and extraordinary meetings of the Company. At the time of this call, the Company holds n. 100,000 treasury shares.

Representation

Each person who has the right to speak in the Shareholders' Meeting may be represented by written proxy, in accordance with applicable law provisions, with the right to sign the proxy form available on the website of the Company: www.tesmec.com (Shareholder's meeting). The proxy can be notified to the Company by means of registered letter sent to the administrative office in Grassobbio, Via Zanica 17/O or by e-mail to: ir@tesmec.it. Any advance notification of the proxy does not absolve the representative, when access to credit for the work of the meeting, from the obligation to certify compliance with the original copy of the notified and the identity of the delegator.

The Company, pursuant to Article 135-undecies of the Consolidated Law on Finance, appointed Marco Cabisto as the representative to whom holders of voting rights may give a written proxy with voting instructions on all or some of the draft resolutions on the agenda provided that he receives it no later than 24 April 2012, as provided by and by means of the specific proxy form available on the website of the Company: www.tesmec.com. The proxy assigned in this way is effective only for the draft resolutions in relation to which voting instructions were given. The proxy and voting instructions can be revoked within the same deadlines as above 24 April 2012. There are no procedures for postal votes or by electronic means.

Right to ask questions

Pursuant to Article 127-ter of the Consolidated Law on Finance, the persons who have the right to speak and to vote in the Shareholders' Meeting can ask questions on the points on the agenda even before the meeting, by sending them, accompanied by the certification of the intermediary proving their capacity as shareholders on the relevant record date, by registered mail to the administrative office or by e-mail to ir@tesmec.it. Questions received before the Shareholder's Meeting are answered at the latest during the meeting. The Company can provide a unified response to questions with the same content.

In order to facilitate the proper course of the Shareholders' Meeting and its preparation, the Shareholders are asked to submit the questions no later than the second day of the open market before the date fixed for the Shareholders' meeting in first call (i.e. no later than 24 April 2012).

Additions to the agenda

Pursuant to Article 126-bis of the Consolidated Law on Finance, the Shareholders who, individually or jointly, represent at least one fortieth of the share capital with voting rights can request, within ten days from the publication of this notice (i.e. no later than 2 April 2012), to add points to the agenda, specifying in the request the additional subjects proposed by them. The request must be submitted in writing by the proposing Shareholders by registered mail to the administrative office to the attention of the Chairman or by sending an e-mail to ir@tesmec.it, accompanied by the relevant certification of the intermediary proving the ownership of the aforesaid stake. Within the above-mentioned period and in the same way, any proposing Shareholder must hand over to the Board of Directors a report on the subject-matters they propose to treat. The addition is not allowed for the points on which the Shareholders' meeting deliberates, in accordance with the law, on a proposal by the directors or on the basis of a project or report prepared by them.

Documents

The documents relating to the points on the agenda of each Shareholders' Meeting will be made available to the public within the timeframe set by the law by filing with the registered office and Borsa Italiana S.p.A., and will also be available on the website of the Company: www.tesmec.com

Experts, financial analysts and journalists can attend the Shareholders' meeting; to this end, they are asked to submit an application to attend the meeting at least two days before the meeting to the following number: fax +39 035 3844606.

Grassobbio, 23 March 2012
Tesmec S.p.A.

COMPOSITION OF THE CORPORATE BODIES

Board of Directors (in office until the date of the Shareholders' Meeting convened to approve the financial statements as at 31 December 2012)

Chairman and Chief Executive Officer

Ambrogio Caccia Dominioni

Vice Chairman

Alfredo Brignoli
Gianluca Bolelli (2)

Directors

Sergio Arnoldi (1) (2) (3)
Giacchino Attanzio (1) (2) (3)
Caterina Caccia Dominioni (3)
Guido Giuseppe Maria Corbetta (1)
Michele Carlo Felice Milani
Luca Poggi
Gianluca Vacchi
Leonardo Giuseppe Marseglia (1)

(1) Independent Directors

(2) Members of the Internal Audit Committee

(3) Members of the Remuneration 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

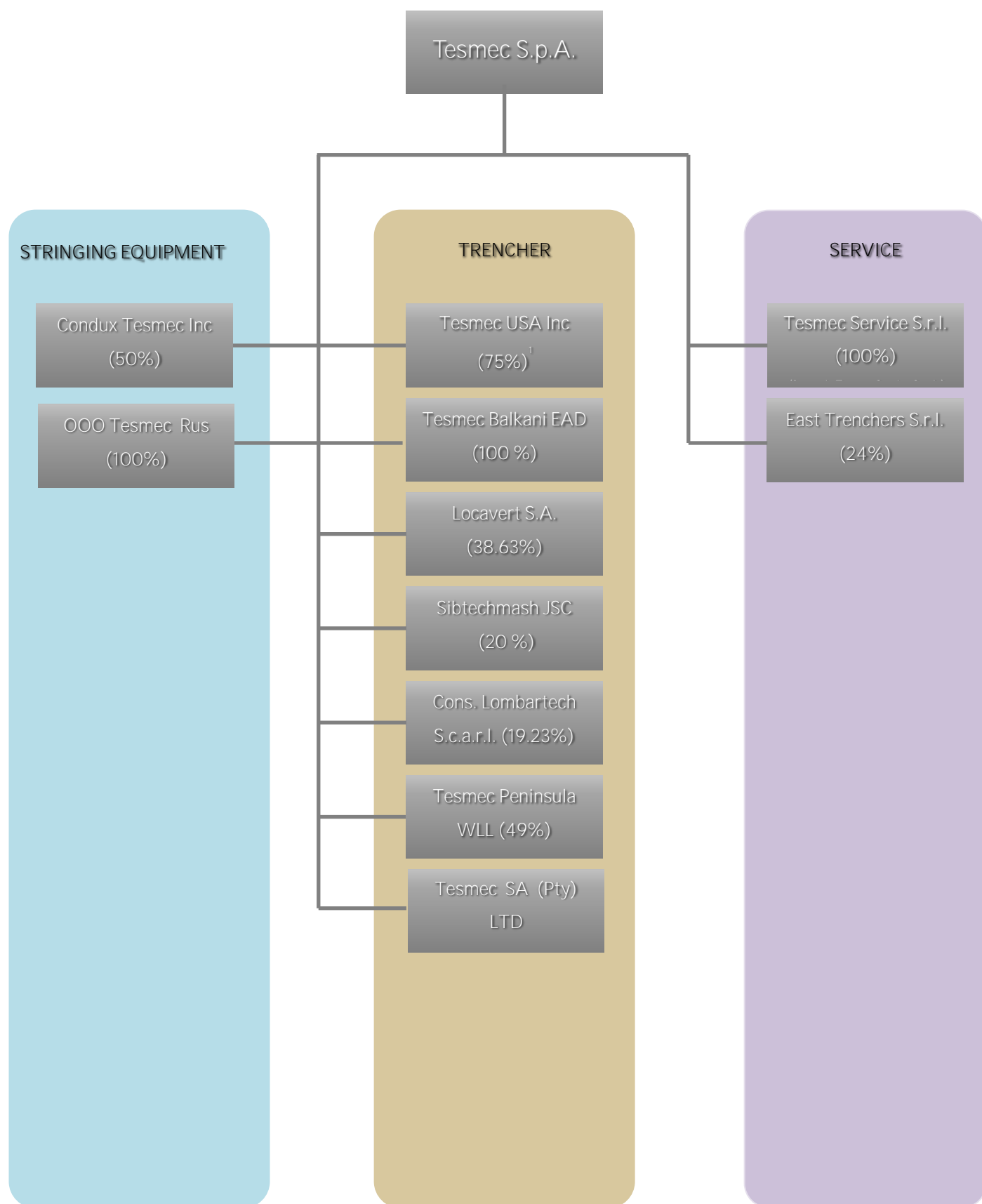
Reconta Ernst & Young S.p.A.

Powers of the corporate officers

Pursuant to the articles of association (Article 21), the Chairman of the Board of Directors and, in case of his absence or impediment, temporary or otherwise, the Vice Chairman represents the company before third parties and before the court and is vested with the company signature; the Chief Executive Officer or the other Directors with proxies are vested as above, within the limits of the delegated powers.

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 S.p.A. Since Tesmec has an obligation to buy it back from Simest S.p.A., from an accounting point of view the participation of the Parent Company in Tesmec S.p.A. 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 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 pipelines.

The Group, established in 1951, has more than 350 employees and four production plants, three in Italy, at Grassobbio (Bergamo), Endine Gaiano (Bergamo) and Sirone (Lecco), and one in the USA, at Alvarado (Texas) and 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;
- high-powered truck trenchers for the linear excavation of underground networks and pipes (pipelines) or for earth moving works and, to a lesser extent, multi-purpose construction equipment (Gallmac).

Machines and systems designed and manufactured by the Group are conceived to work also in extreme environmental conditions such as desert or Arctic areas.

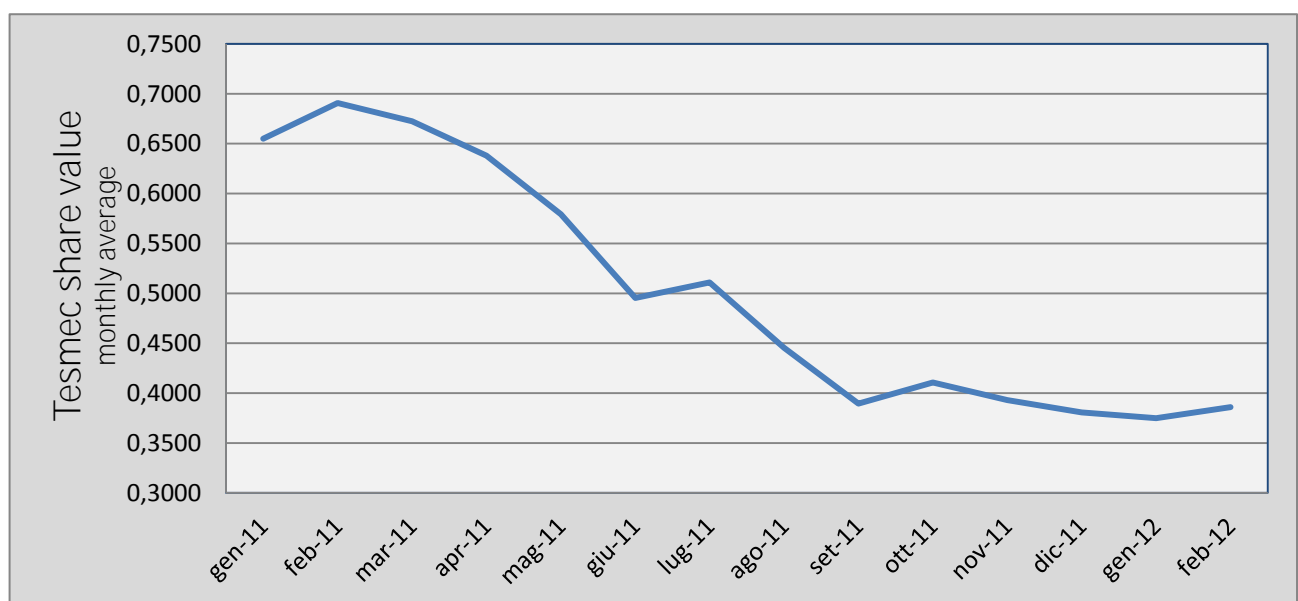
In addition to the historical sectors, Tesmec is increasing its presence on the market through the streamlining and management of the power networks and through the offer of specialised excavation services.

The Tesmec Group has always distinguished itself thanks to its special focus on research and development of new products and solutions with high technological content and is among the main world producers in the stringing equipment segment of aerial high voltage electric power lines and in the high powered crawler trencher segment for the linear excavation with a set section.

2. Tesmec on the Stock Exchange Market

We report below the performance of the Tesmec S.p.A. share from 1 January 2011 to the end of February 2012.

As at 30 December 2011, the reference price of the Tesmec share is equal to Euro 0.3785 per share. Market capitalisation as at 31 December 2011 amounts to Euro 40.5 million (around Euro 48.2 million at the date of this report). The following chart shows the listing price trend from 1 January 2011 to February 2012:



| | |
|---|--------|
| Reference price as at 30 December 2011 | 0.3785 |
| Reference price as at 14 March 2012 | 0.4498 |
| Maximum price (18 February 2011) ⁽¹⁾ | 0.712 |
| Minimum price (21 December 2011) ⁽¹⁾ | 0.324 |

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

3. Significant events occurred during the period and development of the company structure

During 2011, the Group continued the implementation of the strategy announced during the listing, which envisages a strengthening of the international presence with the opening of direct sales facilities in areas with high growth prospects, and the development of know-how to complete the range of offered products and services raising their technological content. This strategy, should the conditions be favourable, will be pursued also through external acquisitions.

In particular, during the 2011 financial period, the Group operated through the opening of the following branches:

- Tesmec Peninsula WLL: Joint Venture, with registered office in Doha (Qatar), set up in March 2011 with the Mustafawi Group, local operator owner of the QBC (Qatar Building Company) Group, for over 30 years primary planning and construction company and market leader in Saudi Arabia and Qatar. The Joint Venture was set up through TME (Tesmec Middle East), company belonging to the QBC Group and already exclusive concessionaire – for a few years – of the trenchers of the Tesmec Group. The JV is part of the strategy for increasing the commercial presence for the Trencher segment in countries on the Arabian Peninsula, with a particular focus on Saudi Arabia and will allow to penetrate commercially in an area where major infrastructural works are planned in the coming years;
- Tesmec SA (Pty) Ltd: Company entirely controlled by Tesmec S.p.A., with registered office in Johannesburg (South Africa), set up in August 2011. The presence in the South African area will allow the Group to take part in important projects in the telecommunications sector and to capture new market shares. The company works in the trencher segment
- OOO Tesmec RUS: Company entirely controlled by Tesmec S.p.A., with registered office in Moscow (Russia), set up in November 2011. The company works in the stringing equipment segment, with a view to increasing its share, also in terms of secondary market volumes, on a market until now not served directly.

The development of new technological solutions was implemented through:

- the purchase in July 2011 of the “I-Light” line of business that accelerated the development of an offer in the field of efficient management of distribution networks with the integration of the newly acquired skills with those already existing within the Group. For a description of this operation, reference is made to the following paragraph 3.3;
- the cooperation started in the first quarter of 2011 with the FSK EES Group (manager of the Russian HV power network), with the focus on development of new line laying technology and efficient management;
- the integrated research project “Umals” which, exploiting the skills matured by various players in the Italian system, key multinationals and universities, has the aim of innovating technologies for underground power cable laying;

Within the development of the Group structure, the transfers of equity investments no longer considered core in terms of business development are also reported:

- on 27 May 2011 the subsidiary Tesmec Service S.p.A. sold its entire investment in Consorzio Stabile Energie Locali S.c.a.r.l. at the price of Euro 2,400 (equal to the book value) since it was considered no longer strategic to Group objectives;
- on 23 December 2011, the parent company Tesmec S.p.A. sold its entire investment in TR Società Consortile under liquidation recorded in the financial statements for Euro 5,000.

Among the other operations occurred during the 2011 financial year, the following is reported:

3.1 New lease contract

On 31 January 2011 Tesmec S.p.A. signed a new contract with the related company Dream Immobiliare S.r.l. valid until 31 January 2025.

The renewal of this contract implied an immediate rental cost saving for the Company compared to the annual amount paid in 2010 of Euro 245 thousand.

When signing the new Lease contract, Tesmec signed an option contract with Dream Immobiliare S.r.l. for purchase of the Lease contract owned by Dream (the Option Contract assigns Tesmec the right to take over the Lease contract or, if necessary, buy out Dream against an initial consideration already paid of Euro 2,700 thousand. This value may be increased according to the period in which the Company exercises 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 current financial period. Therefore, this implied recognition of the value of the industrial complex - for the part occupied by the Company and subject 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 approximately Euro 22.5 million), with corresponding entry of the related discounted loan.

3.2 Activities of the new JV Tesmec Peninsula.

In 2011, the Group, after the setting up of JV Tesmec Peninsula WLL, started the commercial penetration in the Saudi Arabian market.

These activities could benefit from, inter alia, the contribution of the TME partner skills with which the Group achieved a considerable commercial success in Qatar, realising in 2008 revenues of more than Euro 18 million.

Tesmec S.p.A. achieved, mainly in the last quarter of the year, sales to the Joint Venture for a total of Euro 10.7 million compared to a production planning based on advanced negotiations existing with the end users of the machines in the Arabian Peninsula. During the first months of the 2012, the Joint Venture finalised part of the existing negotiations by obtaining specific purchase orders that confirm the expectations related to the commercial initiative started during the financial year.

3.3 Business Unit Acquisition

In July 2011, the subsidiary Tesmec Service S.p.A. purchased the business unit from the I-light company operating in the sector of efficient management and monitoring the energy distribution networks through computer based applications. The acquisition price was Euro 400 thousand, of which net assets acquired of Euro 6 thousand, the difference of Euro 394 was provisionally recorded as goodwill.

As provided by IFRS 3, within 12 months after the transaction (i.e. July 2012), the recording of the acquisition will be completed through the final allocation of the paid purchase price. This value refers to the technology called 'Smart Grid' and to two contracts for sale entered into by I-Light. Research and development projects undertaken at European level in the field of applications of this technology are also included.



4. Overview of the financial results

The consolidated financial statements of Tesmec have been prepared in accordance with International Financial Reporting Standards – hereinafter the “IFRS” or the “International Accounting Standards”), which were endorsed by the European Commission, in effect as at 31 December 2011. The following table reports a summary of the main profit and loss indicators in 2010 and in 2011 and the main financial indicators as at 31 December 2010 and as at 31 December 2011:

| 2010 | OVERVIEW OF THE FINANCIAL RESULTS (consolidated figures) | 2011 |
|---|--|-------|
| Key income statement data (Euro in millions) | | |
| 105.3 | Operating Revenue | 111.8 |
| 15.1 | EBITDA | 19.0 |
| 18.6 | EBITDA (before non-recurring expenses) | 19.0 |
| 13.1 | Operating income (before non-recurring expenses) | 13.3 |
| 9.6 | Operating income | 13.3 |
| 5.2 | Gorup net income for the period | 6.6 |
| Tesmec S.p.A. (Euro in millions) | | |
| 6.6 | Net income | 7.5 |
| Key financial position data (Euro in millions) | | |
| 67.4 | Net invested capital | 98.5 |
| 34.7 | Shareholders' equity | 38.9 |
| 32.7 | Net financial indebtedness | 59.6 |
| 32.7 | Net financial indebtedness (excluding the New lease contract) | 37.9 |
| 6.9 | Net investments in tangible and intangible fixed assets | 27.6 |
| 6.9 | Net investments in tangible and intangible fixed assets (excluding the New lease contract) | 5.3 |
| 346 | Annual average employees | 359 |

5. Group performance

Macroeconomic framework

The expectations for a continuation of the economic growth that had occurred during the 2009-2010 period were partially disregarded during 2011, especially in the second half of the year and in particular in the Countries of the so-called Advanced Economies struggling with problems of consolidation of tax deficit.

Even emerging countries and countries of more recent industrialisation are slowing down because of the uncertainties of the international context and of the reduction in domestic demand.

Following this, the IMF has recently reduced growth estimates for the world economy in 2012 to 3.3% against a 4% estimate published in September 2011.

The Governments of major industrialised countries are grappling with the adoption of appropriate monetary policies and development incentives in that, as from August 2011, the confidence of households and enterprises has deteriorated greatly also as a result of the tightening of the conditions of access to credit for the private sector (“credit crunch”).

These development initiatives are focusing increasingly on the infrastructure market where they are driven by the need to rationalise energy consumption and improve the speed of information transmission.

The cost of raw materials, down in 2011 due to reduction in global demand, should remain broadly stable in 2012 whereas there was no reduction in the oil price due to the persistence of geo-political tensions in several areas of supply (just think of the recent European embargo against Iran's nuclear plan).

Stock-market indexes show hard-won results arising essentially from the recovery effect with the strength-weakness of individual currencies. Changes as at 31/12/2011 compared to 2010 are set below:

- FTSE MIB: -25.2%
- FTSE inc all shares: -24.3%

| | |
|--------------------------|---------|
| ▪ Dow Jones industrials: | +5.53% |
| ▪ FTSE 100 London: | -5.55% |
| ▪ CAC40 Paris: | -16.95% |
| ▪ Frankfurt Dax: | -15.61% |

As far as exchange rates are concerned, 2011 reported a weakening of major currencies compared to the Euro (by way of example, an increase of the Euro/USD exchange rate by 5%), being disadvantageous to commercial relations in exports. Sound investments showed high performances (gold + 11.41%) whereas copper, nickel and tin increased among the major commodities.

The Brent Crude Oil barrel price in USD fluctuated in the course of the year, registering a change of 12.20% in USD in 12 months.

Performance by segment

▪ **Stringing equipment**

The machines and integrated systems for the construction, maintenance and streamlining of underground and aerial power lines recorded a consolidation of revenues compared to the previous year. Revenues as at 31 December 2011 of Euro 65,282 thousand slightly up compared to Euro 65,065 thousand in the previous financial year, are characterised by a different composition by geographic area with a higher weight of the revenues achieved in the European area compared to the other macro areas. Margins are up compared to the previous financial period (Ebitda on revenues increased from 16.2% as at 31 December 2010 to 22.7% as at 31 December 2011) and confirm the positive track record in prior financial periods. This improvement is the result both of a process of improvement of cost efficiency and a favourable product mix and of increased sales in markets where there is a better margin.

▪ **Trencher**

High-powered truck trenchers and systems for the construction of underground infrastructures such as gas pipelines, oil pipelines, water systems, sewerage systems for laying cables and for earth moving works recorded an increase in revenues of Euro 6,282 thousand (+15.6%) from Euro 40,215 thousand as at 31 December 2010 to Euro 46,497 thousand as at 31 December 2011. The increase in revenues of this segment is a result of the recovery of the North American market and of the continuous development of the Middle Eastern market. It should be noted that the American market in 2011 gave the first signs of recovery after the financial crisis started in the second half of 2008 that continued for the two next financial years; in fact, the revenues to third parties of the American subsidiary Tesmec USA in 2011 represent 26.5% of the revenues of the trencher segment compared to 10.9% as at 31 December 2010. Margins decreased compared to the previous financial year passing from 15% to 9%, the reduction is closely related both to the negative trend of the exchange rate with the US currency, of Euro 1.1 million, but also to the fact that in the 2011 financial period no service activities were carried out directly by the Group, activities that during the 2010 financial period contributed decisively on the EBITDA of the Group (Euro 2.3 million). This trend confirms the extreme selectivity of Group policy in this sector of activity where trade negotiations were not finalised in the absence of economic and financial conditions required to justify the investment of the machines in the fleet.

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 that is 75% owned by Tesmec S.p.A. and 25% by Simest S.p.A. (with an option of Tesmec S.p.A. to repurchase the Simest's shareholding interest), is based in Alvarado (Texas) and operates in the trencher segment. In 2011, the company reported an improvement compared to the previous financial year and contributed to a greater extent to the revenues achieved by the group compared to the previous financial year. Revenues amounted to Euro 12.7 million achieved almost exclusively through direct sales to third-party final customers instead of the traditional channel of distributors almost exclusively used in the past.
- Tesmec Balkani EAD (former Tesmec Beta), a company that is 100% owned by Tesmec S.p.A. with Headquarters in Plovdiv (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 will become strategically important with the opening of large infrastructure projects planned for the Balkan area. During the 2011 financial period, revenues amounted to Euro 25 thousand.
- Tesmec Service S.p.A., which is 100% owned by Tesmec S.p.A. and based in Costa Volpino (BG), is focused on the service activity, primarily in support of the trencher equipment segment and as from 2011 with the acquisition of the I-Light line of business offers solutions in the efficient management of the existing electric system. During the

2011 financial period, the company has not yet started significant projects and the revenues amounted to Euro 1.2 million.

- Tesmec SA (Pty) Ltd, with registered office in Johannesburg (South Africa), 100% owned by Tesmec S.p.A., was set up in August 2011. The South African market is considered a market with a strong growth of projects in the telecommunications and pipelines sector in general. In 2011, the company generated revenues of Euro 107 thousand.
- OOO Tesmec Rus, with registered office in Moscow (Russia), 100% owned by Tesmec S.p.A., was set up in November 2011, since it was set up at the end of the year, during 2011, as at 31 December 2011, it did not produce revenue.
- Condux Tesmec Inc, a joint venture that is 50% owned by Tesmec S.p.A. 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 5.1 million during the financial period. The profits added Euro 48 thousand to the Group's net result.
- Tesmec Peninsula WLL, Joint Venture with registered office in Doha (Qatar), 49% owned by Tesmec S.p.A. is the hub with which the Tesmec Group is present on the market of the Arabian Peninsula; the activity of Tesmec Peninsula started in the second quarter of 2011 and generated revenues of Euro 1.4 million.
- 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 1.1 million in revenues.
- East Trenchers S.r.l.: the associated company is specialised in the hire/service of trencher machines with the inclusion of pre/post sales services that traditionally are coupled with this kind of activity. During the 2011 financial period, revenues amounted to Euro 31 thousand.
- the other associated companies, Sibtecmash Jsc. and Consorzio Lombartech Scarl are currently not operational at the date of this report.



6. Income statement and balance sheet situation as at 31 December 2011

Consolidated Income statement

The Group closed the financial period as at 31 December 2011 with a net income of Euro 6,590 thousand compared to a net income of Euro 5,243 thousand as at 31 December 2010 with a 26% increase. The following table shows the trend of major economic indicators of the Group as at 31 December 2011 compared to 31 December 2010.

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | |
|---|------------------------------------|----------------|-----------------|----------------|
| | 2011 | % on revenues | 2010 | % on revenues |
| Revenues from sales and services | 111,779 | 100.00% | 105,280 | 100.00% |
| Cost of raw materials and consumables | (55,684) | -49.82% | (48,678) | -46.24% |
| Recurring costs for services | (20,881) | -18.68% | (20,596) | -19.56% |
| Non-recurring costs for services | - | 0.00% | (3,515) | -3.34% |
| Payroll costs | (17,864) | -15.98% | (17,119) | -16.26% |
| Other operating (costs)/revenues, net | (1,632) | -1.46% | (3,692) | -3.51% |
| Amortisation and depreciation | (5,787) | -5.18% | (5,517) | -5.24% |
| Development costs capitalised | 3,330 | 2.98% | 3,399 | 3.23% |
| Total operating costs | (98,518) | -88.14% | (95,718) | -90.92% |
| Operating income | 13,261 | 11.86% | 9,562 | 9.08% |
| Financial expenses | (4,781) | -4.28% | (3,396) | -3.23% |
| Financial income | 2,285 | 2.04% | 1,749 | 1.66% |
| Portion of gains/(losses) from equity investments evaluated using the equity method | (10) | -0.01% | 83 | 0.08% |
| Pre-tax profits | 10,755 | 9.62% | 7,998 | 7.60% |
| Income taxes | (4,165) | -3.73% | (2,784) | -2.64% |
| Net profit for the period | 6,590 | 5.90% | 5,214 | 4.95% |
| Non-controlling interests | - | 0.00% | (29) | -0.03% |
| Group net profit | 6,590 | 5.90% | 5,243 | 4.98% |

A restatement of the income statement figures representing the performance of EBITDA is provided below:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | |
|------------------------------|------------------------------------|---------------|---------------|---------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues | 2011 vs. 2010 |
| Operating income | 13,261 | 11.9% | 9,562 | 9.1% | 3,699 |
| + Amortisation/Depreciation | 5,787 | 5.2% | 5,517 | 5.2% | 270 |
| EBITDA ^(*) | 19,048 | 17.0% | 15,079 | 14.3% | 3,969 |

^(*) The EBITDA is represented by the operating income gross of amortisation/depreciation. The EBITDA thus defined represents a measurement used by Company management to monitor and assess the company's operating performance. EBITDA is not recognised as a measure of performance by the IFRS and therefore is not to be considered an alternative measurement for assessing the performance of the Group's operating income. As the composition of 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.

The following table analyses the breakdown of operating revenues and costs gross of amortisation/depreciation by segment. For a better understanding, rental costs (Euro 1,826 thousand), which were reclassified as a result of the application of IAS 17 to the new lease contract referred to in paragraph 3.1, were added to the operating costs of the 2011 financial year:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | | |
|---|------------------------------------|--------------|---------------|---------------------|--------------|---------------|
| | 2011 | | | 2010 | | |
| | Stringing equipment | Trencher | Consolidated | Stringing equipment | Trencher | Consolidated |
| Revenues from sales and services | 65,282 | 46,497 | 111,779 | 65,065 | 40,215 | 105,280 |
| Operating costs net of depreciation and amortisation and of the effects related to the New lease contract | (51,327) | (43,230) | (94,557) | (54,556) | (35,645) | (90,201) |
| EBITDA | 13,955 | 3,267 | 17,222 | 10,509 | 4,570 | 15,079 |
| <i>Effect on revenues</i> | <i>21.4%</i> | <i>7.0%</i> | <i>15.4%</i> | <i>16.2%</i> | <i>11.4%</i> | <i>14.3%</i> |

The trencher segment contributed most (+15.8%) to the increase in revenues (+6.2%) thanks to the recovery in sales on the American and Middle Eastern markets. The stringing equipment segment, in connection with a consolidation in revenues, increased in 2011 by 0.3% compared to 2010, reported a considerable increase in profitability thanks to an improved product/Country mix. The decrease in margins of the trencher segment is due to a less favourable EUR/USD exchange rate and a decrease in sales of services that traditionally have a higher Ebitda compared to that of sales of products:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | |
|---|------------------------------------|---------------|----------------|---------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues | 2011 vs. 2010 |
| Sales of products | 110,017 | 98.4% | 100,107 | 95.1% | 9,910 |
| Services rendered | 1,762 | 1.6% | 5,173 | 4.9% | (3,411) |
| Total revenues from sales and services | 111,779 | 100% | 105,280 | 100% | 6,499 |

In 2011, the sales of services of the trencher segment consist in renting activities in the United States and Saudi Arabia.

Revenues by segment

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | |
|----------------------------|------------------------------------|---------------|----------------|---------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues | 2011 vs. 2010 |
| Stringing equipment | 65,282 | 58.4% | 65,065 | 61.8% | 217 |
| Trencher | 46,497 | 41.6% | 40,215 | 38.2% | 6,282 |
| Total revenues | 111,779 | 100% | 105,280 | 100% | 6,499 |

The performance of revenues by segment shows in 2011 a substantial consolidation in revenues of the stringing equipment segment (increase in 2010 by 46%) and a 15.8% increase in revenues of the trencher segment supported by the sales trend of the American continent and the Middle East.

Revenues by geographic area

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | | |
|----------------------------|------------------------------------|---------------|----------------|---------------------|---------------|----------------|
| | 2011 | | | 2010 | | |
| | Stringing equipment | Trencher | Consolidated | Stringing equipment | Trencher | Consolidated |
| Italy | 2,371 | 2,512 | 4,883 | 2,214 | 4,578 | 6,792 |
| Europe | 22,311 | 2,590 | 24,901 | 11,399 | 6,252 | 17,651 |
| Middle East | 1,975 | 25,027 | 27,002 | 2,464 | 17,937 | 20,401 |
| Africa | 3,063 | 3,117 | 6,180 | 3,216 | 7,036 | 10,252 |
| North and Central America | 3,008 | 11,810 | 14,818 | 5,148 | 4,400 | 9,548 |
| BRIC and others | 32,554 | 1,441 | 33,995 | 40,624 | 12 | 40,636 |
| Total revenues | 65,282 | 46,497 | 111,779 | 65,065 | 40,215 | 105,280 |

The geographic distribution of sales shows a consolidation of sales in the countries of the so-called BRIC area to which part of the sales invoiced in Europe is allocated. For the United States, the sales trend benefited from a second half-year much more favourable than the first.

With regard to the Trencher segment, there is a recovery of sales in the Middle East and in America partially offset by a drop in sales in the African continent.

Operating costs

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | |
|------------------------------|------------------------------------|---------------|---------------|---------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues | 2011 vs. 2010 |
| Stringing equipment | 52,510 | 47.0% | 56,254 | 53.4% | (3,744) |
| Trencher | 46,008 | 41.2% | 39,464 | 37.5% | 6,544 |
| Total operating costs | 98,518 | 88.1% | 95,718 | 90.9% | 2,800 |

Overall operating costs were up 2.9% compared to the prior period in a less than proportional way compared to the sales trend (+6.2%). The analysis of the figure broken up by sector shows an increase in costs for the trencher segment of 16.8% greater than the increase in revenues (+15.8%) whereas with regard to the stringing equipment segment there is a decrease in costs by 7.0% in connection with a slight increase in revenues by 0.3%. In 2010, costs of Euro 3.5 million were recorded in relation to the listing process. Moreover, in 2011, non-recurring costs of Euro 0.6 million related to the opening of new branches were recorded and the increase in overhead costs related to the listing process is estimated to be approximately Euro 0.5 million.

Operating profit

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | |
|-------------------------------|------------------------------------|---------------|--------------|---------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues | 2011 vs. 2010 |
| Stringing equipment | 12,772 | 11.4% | 8,811 | 8.4% | 3,961 |
| Trencher | 489 | 0.4% | 751 | 0.7% | (262) |
| Total operating result | 13,261 | 11.9% | 9,562 | 9.1% | 3,699 |

The operating profit of Euro 13,261 thousand increased by 38.7% compared to the consolidated figure as at 31 December 2010.

Net income

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| Net profit | 6,590 | 5,214 |
| % Effect on revenues | 5.90% | 4.95% |
| Non-controlling interests | - | (29) |
| Gorup net income for the period | 6,590 | 5,243 |
| % Effect on revenues | 5.90% | 4.98% |

Results for the period amounted to Euro 6,590 thousand (Euro 5,243 thousand in 2010) after deducting taxes totalling Euro 4,165 thousand (Euro 2,784 thousand in 2010). The increased tax burden (39% on pre-tax profits) compared to the previous financial year (35%) is mainly due to the benefits of the Tremonti law on the 2010 tax calculation.

Profitability ratios

| <i>Index</i> | <i>Composition</i> | Financial period ended 31 December | |
|-------------------------------|---|------------------------------------|-------|
| | | 2011 | 2010 |
| Return on sales (R.O.S.) | Operating income / Net revenues | 10.7% | 12.4% |
| Return on investment (R.O.I.) | Operating income / Invested capital | 15.6% | 19.4% |
| Return on equity (R.O.E.) | Net income / Shareholders' equity | 16.7% | 15.1% |
| Invested capital turnover | Net revenues / Net invested capital | 1.5 | 1.6 |
| Working capital turnover | Net revenues / Net working capital | 2.3 | 2.6 |
| Debt ratio | Net financial indebtedness/Shareholders' equity | 1.0 | 0.9 |

In order to facilitate the comparison, indexes were calculated net of the impacts of the recording of the new lease contract referred to in paragraph 3.1.

The table above shows concisely the main trends that characterised the financial statements of the Group as at 31 December 2011 compared to 31 December 2010. Economic indicators are affected by the lower profitability achieved in the trencher segment due to the exchange rate trend, lower impact of revenues from services and reversal of margins on sales in the Middle East set forth in paragraph 3.2. In financial terms, there has been a lower return rate of the working capital on revenues always linked to the increase in receivables that the entry in new markets (especially Saudi Arabia) implied. Return on investment ratio (R.O.I.), which summarises the economic and financial trends, worsened from 19.4% in 2010 to 15.6% in 2011. Return on equity ratio (R.O.E.) improved thanks to the increase in the net income (+25.7%).

Balance sheet and financial profile

The financial position of the company as at 31 December 2011 compared to 31 December 2010 is briefly shown below.

| <i>(Euro in thousands)</i> | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| USES | | |
| Net working capital ⁽¹⁾ | 48,381 | 40,236 |
| Fixed assets | 48,225 | 26,064 |
| Other long-term assets and liabilities | 1,879 | 1,146 |
| Net invested capital ⁽²⁾ | 98,485 | 67,446 |
| SOURCES | | |
| Net financial indebtedness ⁽³⁾ | 59,598 | 32,707 |
| Shareholders' equity | 38,887 | 34,739 |
| Total sources of financing | 98,485 | 67,446 |

⁽¹⁾ The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by 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 recognised as a 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.

There is an increase in Invested Capital mainly related to the change in fixed assets determined by the new lease contract set forth in paragraph 3.1. The working capital also increased by 20% in a more than proportional way compared to the increase in sales mainly due to an extension of the conditions of collection determined by the entry in new markets especially for the trencher segment.

The effects of the new lease contract played a significant role in the changes in a number of the items of the above table. The table below illustrates the data as at 31 December 2011 excluding these effects for a better understanding of changes in the underlying items.

| <i>(Euro in thousands)</i> | 31 December 2011 excluding the New lease contract | 31 December 2010 |
|--|---|------------------|
| USES | | |
| Net working capital | 48,344 | 40,236 |
| Fixed assets | 26,437 | 26,064 |
| Other long-term assets and liabilities | 1,879 | 1,146 |
| Net invested capital | 76,660 | 67,446 |
| SOURCES | | |
| Net financial indebtedness | 37,910 | 32,707 |
| Shareholders' equity | 38,750 | 34,739 |
| Total sources of financing | 76,660 | 67,446 |

The above table shows that, net of the effects of the new lease contract, the change in invested capital and in indebtedness is mainly due to the trend of the net working capital.

A) Net working capital

| <i>(Euro in thousands)</i> | 31 December | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Trade receivables | 43,902 | 32,482 |
| Inventories | 42,081 | 42,220 |
| Trade payables | (26,529) | (26,291) |
| Other current assets (liabilities) | (11,073) | (8,175) |
| Net working capital ⁽¹⁾ | 48,381 | 40,236 |

⁽¹⁾ The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by 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 represents 43% of net revenues, up compared to 38% reported in 2010. This result was affected by the trend of trade receivables that increased by 33.7% more than proportionally compared to sales. This trend is due to the sales of trenchers on the Saudi Arabian market where the timing for the end to negotiations and relevant collections from the end customer are producing their effects in the initial months of 2012. Inventory decreased by 0.2% thanks to the recovery of sales on the North American market.

B) Net fixed assets

| | 31 December | |
|----------------------------------|---------------|---------------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Intangible assets | 7,963 | 6,813 |
| Property, plant and equipment | 38,881 | 17,993 |
| Equity investments in associates | 1,379 | 1,256 |
| Other equity investments | 2 | 2 |
| Fixed assets | 48,225 | 26,064 |

The increase in property, plant and equipment is mainly determined by the accounting effects related to the new lease contract whereas there is no significant increase in the trencher fleet in that the customers have exercised the buy option envisaged in the rental contracts.

C) Medium to long-term assets and liabilities

| | 31 December | |
|--|--------------|--------------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Financial receivables and other non-current financial assets | 982 | 7 |
| Derivatives | 0 | 131 |
| Deferred tax assets | 4,771 | 4,912 |
| Employee benefit liability | (2,503) | (2,968) |
| Deferred tax liabilities | (1,371) | (936) |
| Other long-term assets and liabilities | 1,879 | 1,146 |

This item increases from Euro 1,146 thousand as at 31 December 2010 to Euro 1,879 thousand. The change is related to the increase in non-current financial receivables of Euro 975 thousand that mainly refer to some contracts for sale with the buy option on the American market (the so-called "rent to own") whose receivable for the part exceeding 12 months was reclassified in this group of items, to the decrease in employee benefit liability for the payment of the severance indemnity accumulated by employees who retired during the year.

Indebtedness

| | 31 December | | | |
|---|---------------|---|---------------|---|
| | 2011 | of which with related parties and group | 2010 | of which with related parties and group |
| <i>(Euro in thousands)</i> | | | | |
| Cash and cash equivalents | (13,817) | | (7,767) | |
| Current financial assets ⁽¹⁾ | (2,358) | (1,157) | (404) | (226) |
| Current financial liabilities | 25,390 | 740 | 20,773 | - |
| Current portion of derivative financial instruments | - | | 90 | |
| Current financial indebtedness ⁽²⁾ | 9,215 | (417) | 12,692 | (226) |
| Non-current financial liabilities | 50,060 | 18,946 | 19,981 | - |
| Non-current portion of derivative financial instruments | 323 | | 34 | |
| Non-current financial indebtedness ⁽²⁾ | 50,383 | 18,946 | 20,015 | - |
| Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 | 59,598 | 18,529 | 32,707 | (226) |

⁽¹⁾ The current financial assets as at 31 December 2011 and 31 December 2010 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 are 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.

Indebtedness increases from Euro 32,707 thousand as at 31 December 2010 to Euro 59,598 thousand as at 31 December 2011. This change is mainly related to the accounting effects of the new lease contract and to the trend of the above working capital.

In addition to this trend 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 2011 84.5% of the total, up compared to 61.2% as at 31 December 2010.

Shareholders' equity

| (Euro in thousands) | 31 December | |
|-----------------------------|---------------|---------------|
| | 2011 | 2010 |
| Share capital | 10,708 | 10,708 |
| Reserves | 21,589 | 18,779 |
| Profit for the period | 6,590 | 5,243 |
| Non-controlling interests | - | 9 |
| Shareholders' equity | 38,887 | 34,739 |

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.

In the 2011 financial period, the major changes are due to the distribution of a dividend of Euro 2,998 thousand (Euro 0.028 per share) and to the profit for the period of Euro 6,590 thousand

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

| (Euro in thousands) | 31 December 2011 | |
|--|----------------------|--------------|
| | Shareholders' equity | Net profit |
| Amounts resulting from the financial statements of Tesmec S.p.A. | 36,948 | 7,513 |
| <i>Consolidation adjustments</i> | | |
| a) Equity investments evaluated using the equity method | 142 | 326 |
| b) Difference between book value and assets of consolidated equity investments | 3,224 | - |
| c) Results from equity investments | (213) | (213) |
| d) Translation reserve | 63 | - |
| e) Elimination of intercompany items | (1,277) | (1,036) |
| <i>Net effect of consolidation adjustments</i> | <i>1,939</i> | <i>(923)</i> |
| Amounts attributable to the Group | 38,887 | 6,590 |

Investments

In 2011, in addition to the effects of the new lease contract described in paragraph 3.1 (Euro 22.3 million), investments include capitalisations relevant to research and development projects (Euro 4.0 million) that refer to activities as a result of which Tesmec manages to maintain its technological leadership position on traditional markets and to increase the range of offered products and services (railway market, management of the electric system) plucking up the high level of internationalisation of its sales network.

Capital expenditures in property, plant and equipment (Euro 2.6 million) were mainly intended for the improvement of the safety conditions related to the productions of the plants of the Group and to the investment of new machines for the fleet mainly in the United States. Euro 1.7 million of disinvestments mainly related to the sale of 4 machines in the United States that originally had been invested in the fleet must be reported.

7. 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.

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

In this paragraph we outline the risk factors and uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on price, 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

The 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.

The Company 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:

- i) marketing in Middle-East Countries trenchers produced in Italy;
 - ii) 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 2011 two forward cover contracts of the Euro/USD exchange rate (flexible/swap). All transactions were concluded by 31 December 2011.

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 letter of credit issued by a prime international bank are usually used as payment methods. For customers located in the European region, the Group mainly uses factoring without recourse. 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:

1. existence and use of alternative suppliers.
2. 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 is benchmarked to the trend of the one/three-month Euribor rates for short-term loans and of the three/six-month Euribor rates for medium to long-term loans. 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.

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 could lead to time issues for achieving quality standards already acquired with the old supplier.

9. Training Human Resources and Industrial relations

Development and training of the personnel as key factors of growth of the Tesmec Group

Developing human resources to support at best growth: the Human Resources area in Tesmec operates as a true business partner, supporting the managers in the management of the most complex processes and in the challenges coming from the market.

The philosophy of the Tesmec Group consists in being competitive and innovative, in creating value, not only through productive support and organisational optimisation, but also thanks to the continuous satisfaction of needs of internal and external customers, through social commitment and the ethical respect of each partner.

The guidelines of Tesmec Human Resources are based on the management of behaviours and persons, on the use of a functional and not ideological approach, on problem solving (cause/solutions).

Tesmec identifies the values of belonging, respect and honesty as the characteristics that marked its 60 years of history, aware of continuing to base the future on the respect for man and the environment by acting with consistency and transparency towards colleagues, customers and suppliers.

The current market scenario requires Tesmec to have as a competitive advantage the continuous development of its human resources. The companies are more and more valued for their ability to adopt a socially responsible approach.

The 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.

The significant figure of "retention" with a further drop in turnover (12.46%) compared to 2010 (16%) and a reduction in absolute terms among inbound and outbound resources that decreased compared to 2011 to 23.66% (24.84% in 2010) is one of the most significant factors. This is the result of a specific business choice aimed at developing at best internal skills, by strengthening the organisational structure: with targeted growth careers at any level (workers, employees, managers).

Resource training and development

Tesmec proposes a project called "New Resource Development", with the aim of developing professional skills by establishing a series of training courses/programs targeted to business and individual needs, with particular attention to those professional figures considered essential for the maintenance of technical and managerial knowledge and skills that are the backbone of Tesmec strategies.

The project for the development of professional skills must identify training methods and courses that will allow the full implementation of the appropriate training initiatives, confirming the strategic value of training as a lever for improving competitiveness.

In short, the purpose of training is to adequately include new staff and maintain and increase the professional, technical and cultural knowledge of the employees in the common interest of the company and each individual component thereof.

The continuous updating and development of Human Resources, also through training, are factors that allow the progressive improvement in the level of skills required to meet the challenges of competitive markets.

The training of personnel is a fundamental lever of business development. In percentage terms, investments in training and development amounted to 0.2% of turnover.

Tesmec started a series of initiatives aimed at consolidating a business training plan that includes:

- greater synergy and integration of processes and management procedures between the Italian parent company and subsidiaries, both Italian and foreign;
- 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 with the goal of creating an identity for each company of the group or branch that comes close to the culture and business ethics.

Personnel and Organisational development

The average workforce employed by the Group in 2011 reports the following changes compared to 2010:

| <i>(average no. of employees)</i> | Financial period ended 31 December | | | |
|---|------------------------------------|------------|---------------|--------------|
| | 2011 | 2010 | 2011 vs. 2010 | % |
| Tesmec S.p.A. (including Beijing representative office) | 299 | 290 | 9 | 3.10% |
| Tesmec USA, Inc. | 53 | 56 | (3) | -5.36% |
| Tesmec SA | 2 | - | 2 | 100.00% |
| OOO Tesmec RUS | 2 | - | 2 | 100.00% |
| Tesmec Balkani EAD | 3 | - | 3 | 100.00% |
| Total | 359 | 346 | 13 | 3.76% |

During 2011, the activity of adjustment of the national and peripheral organisation structures of the companies of the group to the new challenges set by the competitive context and by the reference framework continued: strengthening of the international dimension of business, enhancement of international acquisitions and partnerships in terms of operational synergies. The significant increase in personnel is due to the recruitment carried out during the year to support the two new branches in Russia and South Africa opened during the year. This phenomenon is due to the entrance of persons with a high level of specialisation in the technical and start-up area of new developments and innovations in the case of mechatronics, distribution and transmission of power that in 2011 reached 50% of the labour force within the entire group. For the subsidiary Tesmec USA Inc., the reduction of the average personnel in 2011 is due to the personnel reduction carried out during 2010 that showed its full effect in 2011.

The Tesmec Group has a young management with an average age of the white-collar personnel of 40.6 years and of the category of workers of 36.99 years. The strengthening phase of the recently adopted recruitment policy continues by creating potential young graduates accounting for 35% of the labour force, with an average length of service of maximum 4 years.

The main organisational development started at the end of 2010 and completed in 2011 was the setting-up of a new organisational model, whose main purpose was to transfer managerial responsibilities on the operational structures, on the subsidiaries and associates, centralising the management of the group of Companies on two apical figures: the Chief Executive Officer who, through the General Manager, develops the guidelines for the achievement of the objectives of growth and development in business and technology.

Personnel costs and incentive plans

The remuneration trends remained almost constant with an increasing average cost per employee due to the entrance of top and middle managers, by starting an integrated talent management and enhancement system aimed at the creation and enhancement of a managerial class that allows the Group to face the challenges at the international level. Another element of salary growth is related to one of the retention forms on strategic employees or employees with high potential of know-how with the completion of the policies of the non-competition agreement accounting for 10- 15% of RAL depending on the functions held within the organisation.

On the sidelines of the stock exchange price of 2010, the Board of Directors approved on 11 May 2011 an incentive plan for the 2011-2013 three-year period, submitted first of all to the attention of the Remuneration Committee. This incentive plan is divided in Four Categories (Chief Executive Officer, Top Management, Manager and Professional) through a Policy that requires a minimum entry threshold by 80% and a maximum threshold by 120% and that enhances M.B.O. at a percentage share ranging from 10% to 30% of RAL. The aim is to respond effectively to the challenges that the Group is going to face.

Welfare Policy

In a globalised economic system, open to new challenges, continuously developing socially, the Human Resources function should act as an essential stimulus in the success of a company.

Tesmec offers and enhances the company welfare as a competitive incentive for the enterprise and for contributing to the well-being of its employees. The services for its employees represent a stimulus for motivation and for strengthening the sense of belonging and the internal organisational climate.

Tesmec adopted a series of innovative solutions to offer to the personnel a better balance between work and private life, by encouraging its social relations and rewarding the results.

Tesmec, on the occasion of its 60th ANNIVERSARY since its foundation, organised a big event that, in addition to being an opportunity for strengthening the fidelity that Tesmec has always built in recent years of its history, trying to build a bridge between the old generation and the new generation of young ambitious persons who are making their way in the company, started a series of initiatives to enhance the policy for increasing and strengthening the Welfare policy:

- provision of scholarships to children of employees;
- individual awards for business excellence for their contribution to the phase of growth, development and innovation of Tesmec this year;
- company loyalty awards for 25, 30 and 35 years' service.

Industrial relations

In 2011, Tesmec maintained its tradition of united Industrial Relations marked by transparency and sharing of problems and of the international economic situation that, albeit being affected by the difficult trade-union climate created at the national level, has always given space to collaboration in shared problem resolving.

In particular, the conclusion of the significant reorganisation agreement of the premises of Sirone (LC) lead to the adoption of a plurality of targeted instruments in 2011, with 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) and the outlay of 15 resources as a result of the mobility that will end on 30 June 2012.

A supplementary agreement assumption was signed for the premises of Grassobbio and Endine, which take 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 of company welfare (forms of privileged incentive, forms of payment as shopping vouchers, new training tools).

Contracts, flexibility and professional training

The management considers persons as the most important value of its business organisation. The motivation of persons is a major factor that allows the company to maintain its leadership position on the market and be considered as an internationally wide-ranging and innovative company.

The increasing involvement of trade unions within the company life represents an important element for the enhancement of existing skills.

The company deemed it appropriate to share with the Social Partners, through this requirement, the existing contractual instruments and all possible solutions to seize all the opportunities for development.

The company considered appropriate the commitment to pursue elements of flexibility useful for responding to market fluctuations, which cause changes in production levels or mix, in order to offer solutions that, according to the specific needs of each site, are able to maintain or acquire a competitive edge, also with reference to the punctuality of the service to the end customer.

Health, safety and environment

Tesmec considers the protection of the workers' health and safety and the protection of the environment of fundamental importance and pursues these goals in compliance with all current specific regulations, as well as with the structuring of a service inside each factory that manages and controls the subjects at issue.

The 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 solutions to be implemented to eliminate or reduce risks is shared with the business functions that must implement these specific measures to ensure their acceptance by the workers and the efficiency in their application.

During 2011, the significant indicators of occupational safety and health were monitored with statistical trend analyses, by showing an ongoing positive trend in the reduction in the incidence of all indexes related to accidents.

A precise system of proxies on environment and safety came fully into force 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 confirmed 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.

10. Related party transactions

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

In addition to what was reported in paragraph 3.1 and 3.2 of this Report for related-party transactions with Dream Immobiliare and JV Tesmec Peninsula, respectively, during the 2011 financial period, no significant related-party transactions were carried out. For the supplemental information requested by CONSOB Communication No. 6064293 of 28 July 2006 on related-party transactions, refer to note 37 of the consolidated financial statements of the Tesmec Group and to note 35 of the financial statements of the Parent Company.

11. Parent company management performance

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

Income statement

The income statement of the Parent Company in 2011 compared with that of the prior financial period is summarised below:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | |
|---|------------------------------------|---------------|-----------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues |
| Revenues from sales and services | 101,152 | 100% | 102,121 | 100% |
| Cost of raw materials and consumables | (48,743) | -48% | (48,479) | -47% |
| Recurring costs for services | (19,243) | -19% | (19,554) | -19% |
| Non-recurring costs for services | - | 0% | (3,443) | -3% |
| Payroll costs | (15,261) | -15% | (14,359) | -14% |
| Other operating (costs)/revenues, net | (1,777) | -2% | (3,826) | -4% |
| Amortisation and depreciation | (4,936) | -5% | (4,420) | -4% |
| Development costs capitalised | 3,086 | 3% | 3,050 | 3% |
| Total operating costs | (86,874) | -86% | (91,031) | -89% |
| Operating income | 14,278 | 14% | 11,090 | 11% |
| Financial expenses | (4,658) | -5% | (3,024) | -3% |
| Financial income | 2,498 | 2% | 1,753 | 2% |
| Pre-tax profits | 12,118 | 12% | 9,819 | 10% |
| Income taxes | (4,604) | -5% | (3,267) | -3% |
| Net profit for the period | 7,514 | 7% | 6,552 | 6% |

Revenues decreased by 1% mainly due to lower sales in the trencher segment especially in the African continent and due to lower revenues for service activities. EBIT increased by 29% thanks to overhead costs containment (in 2010, costs of Euro 3.4 million were recorded in relation to the listing process) although in 2011 costs for the opening of the new branches of around Euro 0.6 million were paid and the costs related to the obligations required by the status as listed company increased. The table below illustrates the performance of EBITDA that increased by 24% also thanks to the reclassification of the lease costs of the property of Grassobbio (Euro 1.9 million) as described in paragraph 3.1. of this Report.

| <i>(Euro in thousands)</i> | Financial period ended 31 December | | | | |
|-----------------------------|------------------------------------|---------------|---------------|---------------|---------------|
| | 2011 | % on revenues | 2010 | % on revenues | 2011 vs. 2010 |
| Operating income | 14,278 | 14.12% | 11,090 | 10.86% | 3,188 |
| + Amortisation/Depreciation | 4,936 | 4.88% | 4,420 | 4.33% | 516 |
| EBITDA | 19,214 | 19.00% | 15,510 | 15.19% | 3,704 |

^(*) The EBITDA is represented by the operating income gross of amortisation/depreciation. The EBITDA thus defined represents a measurement used by Company management to monitor and assess the company's operating performance. EBITDA is not recognised as a measure of performance by the IFRS and therefore is not to be considered an alternative measurement for assessing the performance of the Group's operating income. As the composition of 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.

Operating profit

Operating Profit equal to Euro 14,278 thousand in 2011 increased by 29% compared to 2010 by absorbing completely the non-recurring costs for the opening of the new branches and the increase in overhead costs related to the listing process occurred in July 2010.

Net income

Results for the period amounted to Euro 7,514 thousand (Euro 6,552 thousand in 2010) after deducting taxes totalling Euro 4,604 thousand (Euro 3,267 thousand in 2010). The increased tax rate in 2011 (38%) compared to 2010 (33%) is mainly due to the termination of the benefits relating to the Tremonti law.

Balance sheet and financial profile

The financial position of the Company as at 31 December 2011 compared to 31 December 2010 is briefly shown below.

| <i>(Euro in thousands)</i> | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| USES | | |
| Net working capital ⁽¹⁾ | 36,465 | 27,122 |
| Fixed assets | 52,777 | 31,078 |
| Other long-term assets and liabilities | (385) | 370 |
| Net invested capital ⁽²⁾ | 88,857 | 58,570 |
| SOURCES | | |
| Net financial indebtedness ⁽³⁾ | 51,909 | 26,137 |
| Shareholders' equity | 36,948 | 32,433 |
| Total sources of financing | 88,857 | 58,570 |

⁽¹⁾ The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by 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 recognised as a 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 and the item relating to fixed assets increased owing to the recording of the new lease contract that played a significant role in the changes in a number of the items of the above table. The table below illustrates the details for a better understanding of changes in the two items:

Working capital

| <i>(Euro in thousands)</i> | 31 December | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Trade receivables | 40,493 | 32,296 |
| Inventories | 28,423 | 28,047 |
| Trade payables | (25,009) | (25,026) |
| Other current assets (liabilities) | (7,442) | (6,127) |
| Net working capital ⁽¹⁾ | 36,465 | 29,190 |

⁽¹⁾ The net working capital is calculated as current assets net of current liabilities excluding financial assets and financial liabilities. Net working capital is not recognised as a measure of performance by 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 increased from 27% reported in 2010 to 36% in 2011. This result was affected by the trend of trade receivables. This trend is due to the sales of trenchers on the Saudi Arabian market where the timing for the end to negotiations and relevant collections from the end customer are producing their effects in the initial months of the 2012 financial period.

Net fixed assets

| | 31 December | |
|------------------------------------|---------------|---------------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Intangible assets | 6,593 | 6,121 |
| Property, plant and equipment | 30,476 | 9,460 |
| Equity investments in subsidiaries | 14,343 | 14,336 |
| Equity investments in associates | 1,363 | 1,158 |
| Other equity investments | 2 | 2 |
| Fixed assets | 52,777 | 31,077 |

The increase in fixed assets is mainly determined by the effects of the new lease contract described in paragraph 3.1. The increase in property, plant and equipment is due to the increase of the Development projects with multi-year revenue generation related to reference market segments (energy, telecommunications, etc.) that are affected by a strong technical development.

The increase in equity investments in associates is mainly due to the subscription of the capital share of the Tesmec Peninsula company recorded in the financial statements of Euro 346 thousand.

Indebtedness

| | 31 December | | | |
|---|---------------|---|---------------|---|
| | 2011 | of which with related parties and group | 2010 | of which with related parties and group |
| <i>(Euro in thousands)</i> | | | | |
| Cash and cash equivalents | (13,361) | | (7,429) | |
| Current financial assets ⁽¹⁾ | (9,706) | (9,516) | (563) | (384) |
| Current financial liabilities | 25,137 | 740 | 14,336 | 2,208 |
| Current portion of derivative financial instruments | - | | 90 | |
| Current financial indebtedness ⁽²⁾ | 2,070 | (8,776) | 6,434 | 1,824 |
| Non-current financial liabilities | 49,516 | 18,946 | 19,669 | - |
| Non-current portion of derivative financial instruments | 323 | | 34 | |
| Non-current financial indebtedness ⁽²⁾ | 49,839 | 18,946 | 19,703 | - |
| Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 | 51,909 | 10,170 | 26,137 | 1,824 |

⁽¹⁾ The current financial assets as at 31 December 2011 and 31 December 2010 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 are 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.

Indebtedness increases from Euro 26,137 thousand as at 31 December 2010 to Euro 51,909 thousand as at 31 December 2011. Euro 21,825 thousand of this increase is explained by the accounting effects of the operation described in paragraph 3.1 and the remaining part is related to the trend of the working capital, in particular to the trend of trade receivables.

We note the continuation of the shift among short and medium to long term sources. Medium to long-term indebtedness represents as at 31 December 2011 96% of the total compared to 75% as at 31 December 2010.

Regarding the current financial assets, the balance that refers to related parties amounts to Euro 9,516 thousand and is relevant to financial receivables towards the subsidiaries for a total of Euro 8,445 thousand and to two cautionary deposits related to the rental contract of the complex in Endine Gaiano towards the related party Dream Immobiliare of Euro 205 thousand and to the operation described in paragraph 3.1 of Euro 864 thousand.

Shareholders' equity

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

12. Corporate governance and self-regulatory code of conduct

The Tesmec Group conforms to the self-regulatory code of conduct of listed companies approved in March 2006 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 of the Company, we make reference to what is reported in the Corporate Governance Manual. For the Board of the Statutory Auditors the complete and updated list of the corporate offices is published by CONSOB on its website, pursuant to Article 144 quinquiesdecies of the Issuer Regulation.

13. Places where the Company operates

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

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

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

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

- On 13 January 2012, Tesmec S.p.A. signed an investment agreement in Bertel S.p.A. Performing the investment contract, Tesmec S.p.A. entered in the share capital of Bertel through a reserved capital increase of a nominal amount of Euro 200 thousand by means of which it has come to hold 40% of the share capital of Bertel. The investment contract also includes the support of the development plan of Bertel and an option to purchase in favour of Tesmec of an additional 20% of the share capital of Bertel to be exercised according to established time frames in the period from 1 January 2014 to 31 March 2016.
Bertel S.p.A., with registered office in Piacenza, is a start-up operating in a market with a high technical profile such as that of streamlining systems of High-Voltage Power Networks and offers innovative technological solutions. The Company has a very high know-how in continuous development through the use of highly specialised young technicians;
- On 10 January 2012, the Shareholders' Meeting authorised the buy-back plan of treasury shares, the authorisation was granted for a period of 18 months; the Board of Directors, held on the same day, started the plan and the maximum quantity was initially fixed at 2% of the Share Capital. From the start of the buy-back plan to the date of this report a total of 100,000 shares (0.093% of the Share Capital) were purchased at an average price of Euro 0.364 (net of commissions) for a total equivalent value of Euro 36,442;
- On 12 March 2012, a contract for the lease of a business unit related to the marketing and design of the AMC2 Progetti e Prototipi S.r.l. company, operating in mechanical design, electrical engineering, and railway rolling stock production for the remuneration of the railway infrastructure was signed.

15. Business outlook

Revenues are expected to increase in the current year especially in the trencher segment where the Group will benefit from the investments made in 2011 in terms of opening to new markets and from the expected start of several infrastructural projects for transporting energy and data.

The current financial situation could affect the timing of implementation of this trend in ways that are not easily quantifiable today.

16. 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 EAD, Tesmec Service S.r.l., Tesmec SA (Pty) Ltd and OOO Tesmec RUS; 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

Board of Directors

| Name | Participation | Role | Number of shares held at the beginning of the 2011 financial period | Number of shares purchased | Number of shares sold | Number of shares held at the end of the 2011 financial period |
|-----------------------------|---------------|--------------------------------|---|----------------------------|-----------------------|---|
| Alfredo Brignoli | Direct | Vice President | 50,000 | - | - | 50,000 |
| Ambrogio Caccia Dominioni | Direct | Chairman and Managing Director | - | 60,000 | - | 60,000 |
| Gianluca Bolelli | Direct | Vice President | - | 34,150 | - | 34,150 |
| Leonardo Giuseppe Marseglia | Indirect (*) | Board member | 5,714,000 | - | - | 5,714,000 |
| 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 Italiana Alimenti S.p.A., Italian company

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

Italian Legislative Decree 231/01

The Company adopted an Organisational Model aimed at ensuring fair and transparent conditions in running the company business, to protect all holders of interest of the Company, tailored on the specificity of Tesmec S.p.A.

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

In the second half of 2011, activities were carried out to evaluate the impact of the inclusion of environmental offences in the category of liability offences under Legislative Decree 231/01. The Company expects to complete the updating of the Model with the environmental offences within the first half of 2012.

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 Program 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.

Information on Significant Companies outside the EU

Tesmec S.p.A., parent company, controls directly or indirectly, six companies established and regulated by the law of States outside the European Union (“Significant Companies outside the EU” as defined by CONSOB Resolution no. 16191/2007, as amended).

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

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

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



PROPOSAL OF RESOLUTION

Report of the Board of Directors of TESMEC S.p.A., drawn up pursuant to Articles 125-*ter* of Italian Legislative Decree no. 58 and 84-*ter* of 24 February 1998 ("Consolidated Law on Finance"), of the Regulation adopted with Consob Resolution no. 11971 of 14 May 1999, as amended and supplemented later ("Issuer Regulation").

Dear Shareholders,

This report illustrates the proposals that the Board of Directors of TESMEC S.p.A. (hereinafter "TESMEC" or the "Company") intends to submit for your approval in relation to the following item on the agenda of the ordinary shareholders' meeting that will be held on 26 April 2012 (first call) or, if necessary, on 7 May 2012 (second call).

1. **Review and approval of the financial statements as at 31 December 2011 and relevant reports; allocation of profit or loss for the period; inherent and consequent resolutions.**

Dear Shareholders,

The Company, within the terms provided by article 154-*ter* of the Consolidated Law on Finance, must publish the annual consolidated financial statements including the draft financial statements, the consolidated financial statements, if prepared, the report on operations and the attestation pursuant to Article 154-*bis*, paragraph 5 of the Consolidated Law on Finance. Review reports prepared by the independent auditors and the reports referred to in Article 153 of the Consolidated Law on Finance are made fully available to the public together with the annual consolidated financial statements.

The draft financial statements were approved by the Board of Directors of the Company on 14 March 2012.

The report on operations will be made available to the public, together with the draft financial statements of TESMEC as at 31 December 2011, the consolidated financial statements of the TESMEC Group as at 31 December 2011, the attestation of the manager responsible for preparing the Company's financial statements, report of the Board of Statutory Auditors and the Independent Auditor's report, with the registered office and Borsa Italiana S.p.A., as well as on the website of the Company www.tesmec.com within the terms contemplated by the laws and regulations in force (i.e. at least 22 days before the Shareholders' Meeting in first call).

For complete information on the subject matter, reference is made to the Report on operations of the Board of Directors and the additional documents made available to the public, within the timeframe set by the law, with the registered office and Borsa Italiana S.p.A., as well as on the website www.tesmec.com in the Investors section.

You are invited to approve the financial statements as at 31 December 2011 of TESMEC S.p.A. that ended with a profit of Euro 7,513,621.

On the basis of the reported results, the Board of Directors proposes to resolve:

- the allocation of profits for the financial year of Euro 7,513,621 as follows:
 - Euro 375,681 to legal reserve, pursuant to Article 2430 of the Italian Civil Code;
 - assign a dividend of Euro 0.030 to each of the ordinary shares outstanding;
 - assign to the Extraordinary Reserve the amount of profit remaining after the allocation to the Legal Reserve and dividend;
- the payment of the 2011 dividend balance, with ex dividend date on 21 May 2012 and payment on 24 May 2012.

2. **Consultation on the first section of the remuneration report pursuant to Article 123-*ter*, paragraph 6, Italian Legislative Decree 58/1998.**

Dear Shareholders,

In relation to point 3, the Board of Directors intends to submit to the Shareholders' Meeting the remuneration report of the members of the administrative bodies, general managers and of the other strategic executives, pursuant to Articles 123-*ter* of the Consolidated Law on Finance and 84-*quater* of the Issuer Regulation as well as Article 7 of the Self-regulatory Code of Conduct, in the version of March 2010.

The Remuneration Report was drawn up in compliance with Enclosure 3A, Table 7-*bis*, of the Issuer Regulation and comprises two sections. The first section of the Remuneration Report illustrates (i) the policy of the Company on the remuneration of the members of the administrative bodies, general managers and strategic executives with reference, at least, to the following financial period and (ii) the procedures used for adopting and implementing this policy. The second section of the Remuneration Report: (i) provides an adequate representation of each of the items that form the remuneration, including the pays contemplated in case of termination of office or employment, by pointing out the consistency with the policy of the Company on remuneration approved in the previous financial period; (ii) explains analytically the fees paid during the financial period under review.

Pursuant to Article 123-*ter*, paragraph 6, of the Consolidated Law on Finance, the Shareholders' Meeting is obliged to express itself, with a non-binding resolution, for or against the first section of the Remuneration Report.

In this regard, reference is made to what is shown in the report drawn up pursuant to Articles 123-*ter* of the Consolidated Law on Finance and 84-*quater* of the Issue Regulation as well as Article 7 of the Self-regulatory Code of Conduct, which will be filed, within the terms contemplated by the laws and regulations in force with the registered office Borsa Italiana S.p.A., as well as on the website of the Company www.tesmec.com.

23 March 2012

TESMEC S.p.A.

The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

CONSOLIDATED FINANCIAL STATEMENTS OF THE TESMEC GROUP

Consolidated statement of financial position

| | | 31 December | |
|--|-------|----------------|----------------|
| (Euro in thousands) | Notes | 2011 | 2010 |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 6 | 7,963 | 6,813 |
| Property, plant and equipment | 7 | 38,881 | 17,993 |
| Equity investments evaluated using the equity method | 8 | 1,379 | 1,256 |
| Other equity investments | 9 | 2 | 2 |
| Financial receivables and other non-current financial assets | 10 | 982 | 7 |
| Derivatives | 18 | - | 131 |
| Deferred tax assets | 27 | 4,771 | 4,912 |
| TOTAL NON-CURRENT ASSETS | | 53,978 | 31,114 |
| CURRENT ASSETS | | | |
| Inventories | 11 | 42,081 | 42,220 |
| Trade receivables | 12 | 43,902 | 32,482 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>13,493</i> | <i>2,979</i> |
| Tax receivables | 13 | 60 | 435 |
| Available-for-sale securities | 14 | 102 | 101 |
| Financial receivables and other current financial assets | 15 | 2,256 | 303 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>1,157</i> | <i>226</i> |
| Other current assets | 16 | 2,291 | 1,542 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>279</i> | <i>427</i> |
| Cash and cash equivalents | 17 | 13,817 | 7,767 |
| TOTAL CURRENT ASSETS | | 104,509 | 84,850 |
| TOTAL ASSETS | | 158,487 | 115,964 |
| SHAREHOLDERS' EQUITY | | | |
| EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS | | | |
| Share capital | 18 | 10,708 | 10,708 |
| Reserves / (deficit) | 18 | 21,589 | 18,779 |
| Net income (loss) for the period | 18 | 6,590 | 5,243 |
| TOTAL EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS | | 38,887 | 34,730 |
| NON-CONTROLLING INTERESTS | | | |
| Minority interest in capital and reserves / (deficit) | | - | 38 |
| Net income / (loss) for the period attributable to minority interests | | - | (29) |
| TOTAL NON-CONTROLLING INTERESTS | | - | 9 |
| TOTAL SHAREHOLDERS' EQUITY | | 38,887 | 34,739 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing financial payables | 19 | 50,060 | 19,981 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>18,946</i> | - |
| Derivatives | 20 | 323 | 34 |
| Employee benefit liability | 21 | 2,503 | 2,968 |
| Deferred tax liabilities | 27 | 1,371 | 936 |
| TOTAL NON-CURRENT LIABILITIES | | 54,257 | 23,919 |
| CURRENT LIABILITIES | | | |
| Interest bearing financial payables (current portion) | 22 | 25,390 | 20,773 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>740</i> | - |
| Derivatives | 20 | - | 90 |
| Trade payables | 23 | 26,529 | 26,291 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>35</i> | <i>84</i> |
| Advances from customers | | 5,358 | 2,105 |
| Income taxes payable | 24 | 2,648 | 3,937 |
| Provisions for risks and charges | 25 | 1,797 | 836 |
| Other current liabilities | 26 | 3,621 | 3,274 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>17</i> | - |
| TOTAL CURRENT LIABILITIES | | 65,343 | 57,306 |
| TOTAL LIABILITIES | | 119,600 | 81,225 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 158,487 | 115,964 |

Consolidated Income statement

| (Euro in thousands) | Notes | Financial period ended 31 December | |
|---|-------|------------------------------------|-----------------|
| | | 2011 | 2010 |
| Revenues from sales and services | 28 | 111,779 | 105,280 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>15,311</i> | <i>4,345</i> |
| Cost of raw materials and consumables | 29 | (55,684) | (48,678) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(1,411)</i> | <i>(1)</i> |
| Recurring costs for services | 30 | (20,881) | (20,596) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(75)</i> | <i>(59)</i> |
| Non-recurring costs for services | | - | (3,515) |
| Payroll costs | 31 | (17,864) | (17,119) |
| Other operating (costs)/revenues, net | 32 | (1,632) | (3,692) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(743)</i> | <i>(1,143)</i> |
| Amortisation and depreciation | 33 | (5,787) | (5,517) |
| Development costs capitalised | 34 | 3,330 | 3,399 |
| Total operating costs | | (98,518) | (95,718) |
| Operating income | | 13,261 | 9,562 |
| Financial expenses | 35 | (4,781) | (3,396) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(1,108)</i> | - |
| Financial income | 36 | 2,285 | 1,749 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>76</i> | <i>39</i> |
| Portion of gains/(losses) from equity investments evaluated using the equity method | | (10) | 83 |
| Pre-tax profits | | 10,755 | 7,998 |
| Income taxes | 27 | (4,165) | (2,784) |
| Net profit for the period | | 6,590 | 5,214 |
| Non-controlling interests | | - | (29) |
| Equity holders of the parent | | 6,590 | 5,243 |
| Basic and diluted earnings per share | | 0.062 | 0.049 |

Consolidated statement of comprehensive income

| <i>(Euro in thousands)</i> | Notes | Financial period ended 31 December | |
|---|-------|------------------------------------|--------------|
| | | 2011 | 2010 |
| NET PROFIT FOR THE PERIOD | | 6,590 | 5,214 |
| <i>Other components of comprehensive income:</i> | | | |
| Exchange differences on translation of foreign operations | 18 | 580 | 1,381 |
| Total other income/(losses) net of taxation | | 580 | 1,381 |
| Total comprehensive income (loss) net of taxation | | 7,170 | 6,595 |
| <i>Attributable to:</i> | | | |
| Equity holders of the parent | | 7,170 | 6,624 |
| Non-controlling interests | | - | (29) |

Statement of consolidated cash flows

| | | Financial period ended 31 December | |
|--|-------|------------------------------------|----------------|
| (Euro in thousands) | Notes | 2011 | 2010 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net profit for the period | | 6,590 | 5,214 |
| <i>Adjustments to reconcile net income for the period to the cash flows generated by (used in) operating activities:</i> | | | |
| Amortisation and depreciation | 33 | 5,787 | 5,517 |
| Unrealised exchange gains on Simest operation | | | 795 |
| Provisions for employee benefits | 21 | 80 | 168 |
| Provisions for risks and charges / inventory obsolescence / doubtful accounts | | 1,562 | 2,029 |
| Employee benefit payments | 21 | (545) | (411) |
| Payments of provisions for risks and charges | | (175) | (375) |
| Net change in deferred tax assets and liabilities | 27 | 610 | (1,991) |
| Change in fair value of financial instruments | 20 | 330 | (219) |
| <i>Change in current assets and liabilities:</i> | | | |
| Trade receivables | 12 | (8,473) | (7,934) |
| Inventories | 11 | 512 | 815 |
| Trade payables | 23 | 208 | 3,908 |
| Other current assets and liabilities | | (1,386) | 5,183 |
| NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A) | | 5,100 | 12,699 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Capital expenditures in property, plant and equipment | 7 | (2,563) | (3,548) |
| Investments in intangible assets | 6 | (4,427) | (4,358) |
| Investments / (disposal) of financial assets | | (2,938) | 4,081 |
| Proceeds from sale of property, plant and equipment and intangible assets | 6-7 | 1,737 | 1,031 |
| NET CASH FLOW (USED IN) INVESTING ACTIVITIES (B) | | (8,191) | (2,794) |
| NET CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Long-term loans received | 19 | 19,989 | 15,952 |
| Repayment of long-term loans | 19 | (12,145) | (8,118) |
| Net change in short-term financial debt | 19 | 4,320 | (18,700) |
| Other changes | | (24) | (144) |
| Dividend distribution | 18 | (2,998) | (2,582) |
| Capital injection for share capital increase | 18 | - | 10,011 |
| NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C) | | 9,142 | (3,581) |
| TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C) | | 6,051 | 6,324 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E) | | (1) | - |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F) | 17 | 7,767 | 1,443 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F) | | 13,817 | 7,767 |
| Additional information: | | | |
| Interest paid | | 3,449 | 2,120 |
| Income tax paid | | 3,563 | 1,630 |

Statement of changes in consolidated shareholders' equity

| | 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 |
|---|---------------|---------------|-----------------------|-------------------|---------------------|----------------|---------------------------|--|---------------------------------|----------------------------|
| <i>(Euro in thousands)</i> | | | | | | | | | | |
| Balance as at 1 January 2010 | 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 |
| Net income for the period | - | - | - | - | - | - | 6,590 | 6,590 | - | 6,590 |
| Change in the consolidation area | - | - | - | - | - | (15) | - | (15) | (9) | (24) |
| Other income (loss) | - | - | - | - | 580 | - | - | 580 | - | 580 |
| Total comprehensive income/(loss) | | | | | | | | 7,155 | (9) | 7,146 |
| Allocation of net income for the period | - | 328 | - | - | - | 1,917 | (2,245) | - | - | - |
| Dividend distribution | - | - | - | - | - | - | (2,998) | (2,998) | - | (2,998) |
| Other changes | - | - | - | - | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 10,708 | 1,126 | 10,915 | - | 63 | 9,485 | 6,590 | 38,887 | - | 38,887 |

Explanatory Notes

Accounting policies adopted in preparing the consolidated financial statements as at 31 December 2011

1. Company information

The parent company Tesmec S.p.A. (hereinafter "Parent Company" or "Tesmec") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange, as from 1 July 2010. The registered office of the Tesmec Group (hereinafter "Group" or "Tesmec Group") is in Milan, Piazza S. Ambrogio no. 16.

The publication of Tesmec's consolidated financial statements for the period ended as at 31 December 2011 was authorised by means of the resolution of the Board of Directors on 14 March 2012.

2. Reporting standards

The consolidated financial statements of the Tesmec Group as at 31 December 2011 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 2011 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 2010, 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 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

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 CONSOB Resolution no. 15519 of 27 July 2006, 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 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 2011, 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) | | | | | |
| Name | Registered office | Currency | Share capital Currency unit | Percentage held | |
| | | | | Directly | Indirectly |
| TESMEC USA, Inc | Alvarado (Texas) | US Dollar | 21,200,000 | 100% | - |
| TESMEC Service S.p.A. | Costa Volpino (BG) - Italy | Euro | 120,000 | 100% | - |
| TESMEC Balkani EAD | Plovdiv (Bulgaria) | Bulgarian Lev | 50,000 | 100% | - |
| TESMEC SA (Pty) LTD | Edenvale (South Africa) | South African Rand | 510 | 100% | - |
| OOO TESMEC RUS | Moscow (Russia) | Russian Rouble | 450,000 | 100% | - |

| ASSOCIATED COMPANIES | | | | | |
|---------------------------------------|-----------------------|----------|--------------------------------|-----------------|------------|
| (consolidated with the equity method) | | | | | |
| Name | Registered office | Currency | Share capital Currency unit | Percentage held | |
| | | | | Directly | Indirectly |
| Zao Sibtechmash | Ishim (Russia) | Rouble | 6,136,000 | 20% | - |
| Locavert SA | Bouillargues (France) | Euro | 403,735 | 39% | - |
| East Trenchers S.r.l. | Pordenone - Italy | Euro | 30,000 | 24% | - |
| Consorzio Lombartech S.c.a.r.l. | Dalmine (BG) - Italy | Euro | 81,000 | 19% | - |

| JOINT VENTURES (consolidated with the equity method) | | | | | | |
|---|---------------------|-------------|---------------|---------------|-----------------|------------|
| Name | Registered office | Currency | Share capital | Currency unit | Percentage held | |
| | | | | | Directly | Indirectly |
| Condux Tesmec Inc | Mankato (Minnesota) | US Dollar | | 2,500,000 | 50% | - |
| Tesmec Peninsula WLL | Doha (Qatar) | Qatar Riyal | | 3,650,000 | 49% | - |

The associated companies, Zao Sibtechmash and Locavert SA, close their company financial year 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 to determine the countervalue in Euros of the financial statements of subsidiary companies expressed in foreign currency (exchange rate to 1 Euro) are shown below:

| | Average exchange rate for the period ended as at 31 December | | Period end exchange rate as at 31 December | |
|--------------------|--|--------|---|-------|
| | 2011 | 2010 | 2011 | 2010 |
| | | | | |
| US Dollar | 1.392 | 1.326 | 1.294 | 1.336 |
| Bulgarian Lev | 1.956 | 1.956 | 1.956 | 1.956 |
| Russian Rouble | 40.880 | 40.263 | 41.765 | 40.82 |
| South African Rand | 10.097 | 9.698 | 10.483 | 8.863 |
| Qatar Riyal | 5.068 | 4.826 | 4.712 | 4.864 |

3. Accounting standards

3.1 General Notes

The consolidated 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.

The consolidated financial statements are presented in Euro; all values are rounded to the nearest thousand, unless otherwise indicated.

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 with definite lives are amortised on a straight-line basis over their estimated useful life and submitted to impairment test whenever there is a possible impairment loss. The residual useful life is reviewed at the end of each financial period or more frequently, if necessary. Changes in the expected estimated useful life or in the ways in which future economic benefits related to the intangible asset are achieved by the Group are recognised by changing the period and/or the method of amortisation and treated as changes in accounting estimates. Amortisation charges of intangible assets with definite lives are recognised in the income statement in the category of cost consistent with the function of the intangible asset.

Intangible assets with indefinite lives are tested annually for impairment losses on an individual basis or in terms of cash-generating unit.

Profits or losses deriving from the disposal of an intangible asset are measured as the difference between the net income and the book value of the asset and are recognised in the income statement upon disposal.

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

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

Research and Development costs

Research costs are posted to the income statement when they are borne.

Development costs borne with regard to a particular project concerning the development of new excavating machines 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 depreciation and any impairment loss determined as described below. The depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company, which is reviewed every year and any change, if necessary, is applied prospectively.

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

| | Years |
|--|-------|
| Buildings | 40 |
| Plant and machinery | 10 |
| Fixtures and fittings, tools and equipment | 4 |
| 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, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

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

Leases

Contracts with the Group as lessee

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 income is posted directly to the income statement.

Impairment of assets

At the end of each reporting period, the Group considers the possible existence of impairment loss indicators of intangible assets with definite lives, of property, plant and equipment and of financial lease assets. If these indicators exist, an impairment test is carried out.

The recoverable value is determined as the fair value of an asset or financial-flow generating unit net of sales costs and its usage value, whichever is higher, and is determined by single asset, with the exception of the case in which this asset generates financial flows that are not widely independent from those generated by other assets or groups of assets, in which case the group estimates the recoverable value of the cash-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 investments in two jointly controlled companies classified as joint ventures. 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.

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 does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.

The Tesmec Group assigns part of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and 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.

Derivatives

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.

With reference to the sales to the Joint ventures, if the risks and benefits related to the ownership of the asset are transferred to them, the revenue is recorded in the income statement. If, at the reporting date, the Joint venture has not transferred the ownership of the asset to the end customer, the margin achieved with it, following the application of the equity method by the Tesmec Group in the consolidated financial statements, is reversed in relation to the amount of shares held in the capital of the company.

If the trade agreements related to the sales of machines contemplate their on-site testing at the premises of the purchaser as a binding condition for the acceptance of the machine, 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 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 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 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 2011:

IAS 24 - Related Party Transactions (revised)

IAS 32 - Financial Instruments: Presentation (revised).

IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (revised)

IFRS 1 - First-time Adoption of the IFRS: exemptions limited to the comparative information established by IFRS 7 in the case of first-time adoption

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Improvements to the IFRS (May 2010)

The adoption of standards and interpretations is described below:

IAS 24 Related Party Disclosures (revised)

The IASB issued an amendment to IAS 24 that clarifies the definition of related party. The new definition emphasises the symmetry in identifying related parties and more clearly defines the circumstances in which persons and strategic executives must be considered related parties. Moreover, the amendment simplifies the disclosure requirements concerning related parties where there are public bodies. There are no significant impacts on the disclosures provided by the group following the application of the above principle.

IAS 32 Financial Instruments: Presentation (revised)

The amendment changes the definition of financial liabilities for the purpose of classification of rights issues – such as options and warrants – in foreign currency other than the issuer's functional currency. Previously, these rights issues were recognised as derivative financial liabilities. Now, if certain conditions are met, these rights issues can be classified as equity instruments regardless of the currency in which the exercise price is denominated. This amendment had no impact on the financial position or on the performance of the Group since the Group does not have this type of instruments.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (revised)

This amendment removes an unintentional consequence that arises when an entity is subject to minimum funding requirements and arranges payment in advance to meet such requirements. Benefits deriving from payments in advance can be recognised as an asset. The Group is not subject to minimum contribution requirements in Europe. This amendment therefore had no impact on the financial position or on the performance of the Group.

IFRS 1 revised - First-time Adoption of the IFRS (revised)

This amendment exempts from providing – in the first-time adoption of IFRS – the comparative figures of the additional disclosures required by IFRS 7 relating to the measurement of fair value and liquidity risk. There are no significant effects on the consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation provides guidance on how to account for the extinction of a financial liability with equity instruments (debt for equity swap), i.e. when an entity renegotiates the terms of a debt with its own lender, which accepts to receive shares of the entity or other equity instruments to extinguish – totally or partially – the debt itself.

The interpretation explains that:

- the shares issued are part of the consideration paid to extinguish the financial liability;
- the shares issued are measured at fair value. If the fair value cannot be reliably determined, the value of the shares issued must reflect the fair value of the extinguished liability;
- the difference between the book value of the financial liability being extinguished and the initial value of the shares issued must be recorded by the entity in the income statement of the financial year.

There are no significant effects on the consolidated financial statements following the application of this interpretation.

Improvements to the IFRS

In May 2010, IASB issued a third series of improvements to the standards, mainly with a view to eliminating inconsistencies and clarifying terminology. The adoption of the following amendments had no impact on the financial position and on the performance of the Group.

- IFRS 3 - *Business Combinations*: the measurement options for non-controlling interests (NCI) have been amended. Only components of non-controlling interests representing an effective interest that guarantees holders a proportionate interest in the assets of company in the event of winding-up can be measured at fair value or, alternatively, in relation to the proportionate share of identifiable net assets of the acquired company. All other components must be measured at fair value at the date of acquisition (see Note 5). The transitional rules for contingent amounts deriving from business combinations and the stock option plans acquired or voluntarily replaced following business combinations were also amended.
- IFRS 7 - *Financial Instruments: disclosures*: the amendment is aimed at clarifying the disclosure to be published by class of financial assets; in particular, some changes and additions are introduced on the information relating to credit risk;
- IAS 1 - *Presentation of Financial Statements*: this amendment clarifies that an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.
- IAS 34 - *Interim Financial Reporting*: specifies the disclosures required by IFRS7 “Financial Instruments: disclosures” and their applicability to the Interim Financial Statements
- IAS 27 - *Consolidated and Separate Financial Statements*: provides the details of transitional provisions for amendments to some standards resulting from the amendments introduced by IAS 27 (2008): i) IAS 21 Effects of Changes in Foreign Exchange Rates: accounting treatment of exchange differences accumulated in equity as a result of a total or partial disposal of an investment in a foreign operation; ii) IAS 28 Investments in Associates/ IAS 31 - Interests in Joint Ventures: accounting treatment if the significant influence or joint control fails.

- IFRIC 13 - *Customer Loyalty Programmes*: this concerns the fair value of award credits (points).

International Accounting Standards and/or interpretations issued but not yet in force and/or not approved.

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the new Standards or the Interpretations already issued but not yet in force or not yet approved by the European Union and therefore not applicable are indicated and briefly described below.

None of these Standards and Interpretations has been adopted by the group in advance.

- Amendment to IFRS 7 - *Financial Instruments: Disclosures - Transfer of financial assets*

These amendments aim to improve the set of financial statements in order to increase transparency and comparability with reference to transactions that cover the transfer of financial assets (e.g. securitisations), including the possible effects of the risks of the entity transferring the asset. These amendments were approved by the European Union in November 2011 (1205/2011 EC Regulation) and apply as from 1 January 2012. No impact is expected on the consolidated financial statements of the group.

- Amendment to IAS 12 - *Income Taxes - Recovery of underlying assets*

According to IAS 12, deferred tax assets or liabilities should be measured depending on whether the book value of its asset is recovered through use or sale. In case of assets measured at fair value based on IAS 40 "Investment Property", it may be difficult and subjective to evaluate whether the recovery will be through use or sale. These amendments provide a practical solution to the problem by assuming that the recovery of investment property will take place through sale. As a result, SIC 21 "Income Taxes - Recovery of revalued non-depreciable assets" is no longer applicable to investment property measured at fair value. The guidelines of SIC 21 still applicable are incorporated within the amended IAS 12 and therefore SIC 21 will be repealed.

These amendments, which are expected to come into force as from 1 January 2012, have not yet been approved by the European Union and are not applicable to the group.

- Amendments to IFRS 1 - *First-time Adoption of IFRS - Severe hyperinflation and replacement of fixed dates in the case of first-time adoption*

The amendments introduced concern:

- guidelines for preparing the financial statements according to IFRS after a period in which the application of IFRS has been suspended because of hyperinflation;
- replacement of fixed dates in the case of first-time adoption of IFRS. The entities that adopt IFRS apply the derecognition requirements of financial assets and liabilities prospectively, i.e. they are no longer required to reconstruct transactions prior to the date of transition to IFRS and that led to the derecognition of financial assets and liabilities.

These amendments, effective as from 1 July 2011, have not yet been approved by the European Union and are not applicable to the group.

- IFRS 10 - *Consolidated Financial Statements*

The new standard replaces IAS 27 "Consolidated and Separate Financial Statements" - for the part related to the consolidated financial statements - and SIC 12 "Consolidation - Special Purpose Entities". IAS 27 - renamed "Separate Financial Statements" - contains only the principles and guidelines for the preparation of separate financial statements.

The new IFRS 10 defines a single control model that applies to all subsidiaries and that is the determining factor on whether a subsidiary should be consolidated. Accounting treatments and consolidation procedures are unchanged compared to what is currently required by IAS 27.

The new control model introduces a greater degree of subjectivity and will require from the management a high degree of judgement to determine whether an entity is controlled and should therefore be consolidated. The new standard also explicitly provides for the possibility of controlling an entity in the absence of a majority of votes (de facto control), a concept that was not present explicitly in IAS 27.

This standard, which will become effective as from 1 January 2013, has not yet been approved by the European Union. To date, the impacts on the consolidation area resulting from the introduction of the new standard in the financial period of the first application are being analysed.

■ IFRS 11 – Joint Arrangements

The new standard, which replaces IAS 31 “Interests in Joint Ventures”, distinguishes between two categories of joint arrangements that have different accounting treatments:

- joint operations: these are agreements that give the parties to the agreement that have joint control of the initiative, rights on individual assets and obligations for individual liabilities relating to the arrangement. In the presence of joint operations, assets and liabilities, costs and revenues of the arrangement must be recognised in accordance with the accounting policies;
- joint ventures: there is a joint venture when the parties, which have joint control of the initiative, have no rights/obligations on individual assets/liabilities relating to the arrangement, but only on net assets or net income of the initiative. In the presence of joint ventures, the consolidation using the equity method is compulsory, whereas the previous IAS 31 provided the option between proportionate consolidation and consolidation using the equity method.

This standard, which will become effective as from 1 January 2013, has not yet been approved by the European Union. To date, the impacts resulting from the introduction of the new standard in the financial period of the first application are being analysed.

■ IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 includes and expands all requirements in terms of disclosure to be provided with respect to subsidiaries, associates, joint arrangements and other equity investments (the so-called structured entities). Many of the disclosures required by IFRS 12 were previously included in IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investments in Associates” and IAS 31 “Interests in Joint Ventures”, while others are new.

This standard, which will become effective as from 1 January 2013, has not yet been approved by the European Union. The impacts in terms of disclosure on the consolidated financial statements deriving from the future application of this standard are being analysed.

■ IFRS 13 – Fair Value Measurement

IFRS 13 includes the guidelines for fair value measurement and the disclosures to be provided. The standard does not extend the use of fair value, but provides its measurement and application methods if other standards allow or require its use.

This standard, which will become effective as from 1 January 2013, has not yet been approved by the European Union. No impact is expected on the consolidated financial statements of the group.

■ Amendments to IAS 1 – Presentation of Financial Statements – presentation of other components posted to equity

The main amendments to IAS 1 concern a new method of presentation of other components posted to equity within the statement of comprehensive income: the other components posted to equity must be grouped among those that in the future may be recycled to the income statement and those for which there is no such possibility.

Examples of items recycled to the income statement are as follows: translation exchange-rate differences, fair value adjustment of cash flow hedge derivatives, fair value adjustment of investments available for sale. An example of items not recycled to the income statement is actuarial gains / losses related to defined benefit pension plans.

These amendments, which will become effective as from 1 July 2012, have not yet been approved by the European Union.

■ IAS 19 – Employee Benefits

IASB issued several amendments to IAS 19. These range from radical changes such as the removal of the corridor approach and of the concept of returns expected from the assets of the plan, to simple clarifications and terminology. The amendments are effective for the financial years from 1 January 2013 or later. For what concerns the impacts on the consolidated financial statements, it is noted that the removal of the corridor approach will not result in impacts in that the Group does not make use of that option already today. The other impacts are being analysed.

■ IAS 27 – Separate Financial Statements

Following the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to the recording of subsidiaries, companies subject to joint control and associates, in separate financial statements. The amendments become effective for the financial years from 1 January 2013 or later. The future application of such amendments will not impact on the consolidated financial statements.

- IAS 28 - Investments in Associates

Following the new IFRS 11 and IFRS 12, IAS 28 was renamed Investments in associates and joint ventures, and describes the application of the equity method to investments in companies subject to joint control, in addition to associates. The amendments are effective for the financial years from 1 January 2013 or later. The future application of such amendments will not impact on the consolidated financial statements.

- Amendment to IFRS 7 – Financial Instruments: Disclosures - offsetting of financial assets and financial liabilities

These amendments introduce the obligation to provide a wide disclosure in the notes in the presence of financial assets and liabilities offset by virtue of a legal right to offset (e.g. gross and net amounts, guarantees given and held). These amendments, which will become effective as from 1 January 2013, have not yet been approved by the European Union. No significant effects are expected on the group financial statements following the future application of these amendments.

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 2011 amounts to Euro 2,503 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 2011, capitalised development costs amounted to Euro 3,330 thousand.

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

4. Financial risk management policy

The Tesmec Group is exposed in varying degrees to financial risks related to the core business. In particular, the Group is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.

The management of financial risks (mainly interest-rate risks) is carried out by the Group on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

- interest bearing 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.

The Group uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The Group does not apply the Cash Flow Hedge Accounting with reference to such positions, in that they do not meet the requirements provided in this regard by the IFRS standards.

The trading of derivative instruments with speculative purposes is not contemplated.

Management of the exchange-rate risk

Exchange-rate risk sensitivity of the Tesmec Group 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 2011, 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 13 million, with a negative equivalent value of around Euro 323 thousand.

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.

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 Group is exposed is mainly originated from existing financial payables.

The main sources of exposure of the Group 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 2012 financial period (compared to 2011) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2011 financial period;
- potential change in fair value of existing derivative instruments.

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

The Group estimated the potential impacts on the Income Statement and on Shareholders' Equity of the 2012 financial period (compared to 2011, calculated with reference to the situation existing at the end of the 2010 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 2012 financial period (compared to 2011).
- 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 2011, 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 2012 financial period of around Euro 217 thousand, offset by an increase of around Euro 118 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 65 thousand, offset by a decrease of around Euro 36 thousand in the collected spread for the existing derivatives.

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 financial expenses accrued in the 2011 financial period of around Euro 155 thousand, offset by an increase of around Euro 54 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 46 thousand, offset by a decrease of around Euro 16 thousand in the collected spread for the existing derivatives.

| | Interest Rates | | | | | |
|---|------------------|--------------------------|-------------------------|------------------|--------------------------|-------------------------|
| | 31 December 2011 | | | 31 December 2010 | | |
| | 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 |
| <i>(Euro in thousands)</i> | | | | | | |
| Borrowings | (75,828)* | (217) | 65 | (40,754) | (155) | 46 |
| Total Loans | (75,828)* | (217) | 65 | (40,754) | (155) | 46 |
| | | | | | | |
| | 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 |
| <i>(Euro in thousands)</i> | | | | | | |
| Derivative instruments hedging cash flows | 13,027 | 118 | (36) | 9,400 | 54 | (16) |
| Total Derivative instruments | 13,027 | 118 | (36) | 9,400 | 54 | (16) |
| | | | | | | |
| Total | | (99) | 29 | | (101) | 30 |

^(*) The indicated residual debt is considered before amortised costs

| | Fair value sensitivity of derivatives | | | | | | | | | |
|---|---|--------------|-----------------|-----------------|-----------------------|-----------------------|----------------|----------------|----------------------|----------------------|
| | Financial period ended 31 December 2011 | | | | | | | | | |
| | Notional value | Net FV | Net FV +100 bps | Net FV +100 bps | Impact on IS +100 bps | Impact on SE +100 bps | Net FV -30 bps | Net FV -30 bps | Impact on IS -30 bps | Impact on SE -30 bps |
| <i>(Euro in thousands)</i> | | | | | | | | | | |
| Derivative instruments hedging cash flows | 13,027 | (323) | 24 | 347 | - | 347 | (435) | (112) | - | (112) |
| Total | 13,027 | (323) | 24 | 347 | - | 347 | (435) | (112) | - | (112) |
| | Financial period ended 31 December 2010 | | | | | | | | | |
| | Notional value | Net FV | Net FV +100 bps | Net FV +100 bps | Impact on IS +100 bps | Impact on SE +100 bps | Net FV -30 bps | Net FV -30 bps | Impact on IS -30 bps | Impact on SE -30 bps |
| <i>(Euro in thousands)</i> | | | | | | | | | | |
| Derivative instruments hedging cash flows | 9,400 | 7* | 268 | 261 | - | 261 | (86) | (93) | - | (93) |
| Total | 9,400 | 7* | 268 | 261 | - | 261 | (86) | (93) | - | (93) |

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

With reference to the situation as at 31 December 2011, 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 347 thousand, with an impact on the Income statement of the 2012 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 112 thousand, with an impact only on the Income statement of the 2012 financial period.

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 around 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.

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.

Trade receivables of Euro 43,902 thousand include Euro 30,731 thousand of receivables due within one year; the residual due by less than one month is Euro 1,743 thousand, whereas the remaining part expired more than a month ago.

Management of liquidity risk

The Group 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 2011 and to 2010 financial periods, with regard to financial instruments, by residual maturity, is set out below.

| Maturity (Euro in thousands) | 31 December 2011 | | | | |
|---------------------------------|--------------------|----------------|----------------|-----------------------|----------------|
| | Financial Payables | | Trade payables | Financial Instruments | Total |
| | Capital | Interest Rates | | | |
| | a | b | c | d | a+b+c+d |
| Within 12 months | 25,482 | 2,864 | 26,529 | 45 | 54,920 |
| Between one and two years | 15,460 | 2,255 | - | 131 | 17,846 |
| Between two and three years | 6,051 | 1,758 | - | 103 | 7,912 |
| Between three and five years | 7,229 | 2,907 | - | 56 | 10,192 |
| Between five and seven years | 9,650 | 2,153 | - | (2) | 11,801 |
| After more than 7 years | 11,956 | 2,775 | - | - | 14,731 |
| Total | 75,828* | 14,712 | 26,529 | 333 | 117,402 |

^(*) The indicated residual debt is considered before amortised costs

| Maturity (Euro in thousands) | 31 December 2010 | | | | |
|---------------------------------|--------------------|----------------|----------------|-----------------------|---------------|
| | Financial Payables | | Trade payables | Financial Instruments | Total |
| | Capital | Interest Rates | | | |
| | a | | 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 |

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 2011 and 31 December 2010).

Management of the exchange-rate risk

The Group is exposed to exchange-rate fluctuations of the currencies in which the sales to foreign customers are paid (US Dollars). 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 2012 financial period (compared to 2011) 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 Group estimated the potential impacts on the income statement of the 2013 and 2012 financial periods (compared to 2011, calculated with reference to the situation existing at the end of the 2010 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 foreign currency (USD) 2011 | | | Sensitivity 2011 | |
|---|---|-----------------------|------------------|--|--|
| | Assets (USD/000) | Liabilities (USD/000) | Equity (USD/000) | Income statement EUR/USD exchange rate +5% | Income statement EUR/USD exchange rate -5% |
| Trade receivables | 28,374 | - | 28,374 | (1,096) | 1,096 |
| Trade payables | - | 287 | 287 | (11) | 11 |
| Total net exposure with regard to equity items | 28,374 | 287 | 28,661 | (1,107) | 1,107 |
| Derivative instruments | - | - | - | - | - |
| Total net exposure with regard to equity items | 28,374 | 287 | 28,661 | (1,107) | 1,107 |

| Exposure with regard to equity items | Exposure in foreign currency (USD) 2010 | | | Sensitivity 2010 | |
|---|---|-----------------------|------------------|--|--|
| | Assets (USD/000) | Liabilities (USD/000) | Equity (USD/000) | Income statement EUR/USD exchange rate +5% | Income statement EUR/USD exchange rate -5% |
| Trade receivables | 13,250 | - | 13,250 | (496) | 496 |
| Trade payables | - | - | - | - | - |
| Total net exposure with regard to equity items | 13,250 | - | 13,250 | (496) | 496 |
| Derivative instruments | - | - | - | - | - |
| Total net exposure with regard to equity items | 13,250 | - | 13,250 | (496) | 496 |

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.

5. Significant events occurred during the period

On 31 January 2011, Tesmec S.p.A. signed a new contract with Dream Immobiliare S.r.l. valid until 31 January 2025. The renewal of this contract implied an immediate rental cost saving for the Company compared to the annual amount paid in 2010 of Euro 245 thousand.

When signing the new Lease contract, Tesmec signed an option contract with Dream Immobiliare S.r.l. for purchase of the Lease 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 in which the Company exercises 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 current financial period. Therefore, this implied recognition of the value of the industrial complex - for the part occupied by the Company and subject 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 approximately Euro 22.5 million), with corresponding entry of the related discounted loan.

Illustrated below are the economic and financial effects deriving from the recording, in accordance with IAS 17, of the operation as at 31 December 2011:

A) The effects on each item of the consolidated statement of financial position:

- *Property, plant and equipment* increase by Euro 21,788 thousand equal to the fair value of the Complex at the date of reference or the present value of the minimum lease payments payable of the Company, whichever lower. The share of the Industrial Complex is represented by the surface area covered in the Lease Contract between the Company and Dream Immobiliare S.r.l. (equivalent to about 68% of the total surface area of the Industrial Complex). Euro 4,016 thousand is related to Land and Euro 17,772 thousand to Buildings.
- The effect on *cash* of Euro 2,866 thousand represents the initial disbursement of Euro 2,700 thousand carried out by the Company as an advance payment/deposit to secure the right of option of takeover in the original contract of financial lease signed by Dream Immobiliare S.r.l. This financial disbursement has been classified, in proportion to the share of the Industrial Complex subject-matter of the lease contract between Tesmec S.p.A. and Dream Immobiliare S.r.l., as a decrease in the overall loan represented by the future payments payable, while the remaining part, not referable to the lease contract, was classified among the financial receivables. The remaining Euro 166 thousand relates to the instalment paid in January 2012;
- total *financial payables* increase of Euro 19,686 thousand, corresponding to the loan. This value was prorated between the short-term portion of Euro 740 thousand (represented by the principal that will be repaid within 12 months of the date of reference on the basis of implementation of future payments) and the medium to long term portion of Euro 18,946 thousand (represented by the remaining discounted portion of future payments payable on the basis of the Lease Contract);
- the decrease in *income taxes payable* of Euro 62 thousand reflects the tax effect on the adjustments applied to the income statement.

B) The effects on each item of the consolidated income statement:

- *other net operating (costs)/revenues* increase of Euro 1,826 thousand and refer to the eleven lease instalments paid in the 2011 financial period;
- *amortisation and depreciation* decrease of Euro 524 thousand; they are related to the depreciation charge calculated on the basis of the useful life of the Industrial Complex and represent the depreciation charge of eleven months. This charge was also calculated considering that 18% of the portion of the Industrial Complex is represented by lands not subject to depreciation.
- The portion recorded in *financial expenses* of Euro 1,103 thousand represents the financial component resulting from the loan repayment plan for the period of eleven months;
- the adjustments applied to the income statement give rise to a tax impact of Euro 62 thousand.

EXPLANATORY NOTES TO MAIN FIGURES IN THE FINANCIAL STATEMENTS

Non-current assets

6. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2011 and as at 31 December 2010 is indicated in the table below:

| | 31 December | | | | | |
|--|-----------------|-----------------|--------------|-----------------|----------------|--------------|
| | 2011 | | | 2010 | | |
| | Historical cost | Accum. amort. | Net value | Historical cost | Accum. amort. | Net value |
| <i>(Euro in thousands)</i> | | | | | | |
| Development costs | 17,943 | (10,866) | 7,077 | 13,737 | (7,737) | 6,000 |
| Rights and trademarks | 2,069 | (1,577) | 492 | 2,000 | (1,368) | 632 |
| Goodwill | 394 | - | 394 | - | - | - |
| Assets in progress and advance payments to suppliers | - | - | - | 181 | - | 181 |
| Total Intangible assets | 20,406 | (12,443) | 7,963 | 15,918 | (9,105) | 6,813 |

The following table shows the changes in intangible assets for the period ended 31 December 2011:

| | 01/01/2011 | Increases due to purchases | Decreases | Reclassifications | Amortisation | Exchange rate differences | 31/12/2011 |
|--|--------------|----------------------------|-------------|-------------------|----------------|---------------------------|--------------|
| <i>(Euro in thousands)</i> | | | | | | | |
| Development costs | 6,000 | 3,959 | - | 163 | (3,068) | 23 | 7,077 |
| Rights and trademarks | 632 | 73 | (6) | - | (209) | 2 | 492 |
| Goodwill | - | 394 | - | - | - | - | 394 |
| Assets in progress and advance payments to suppliers | 181 | - | (18) | (163) | - | - | - |
| Total Intangible assets | 6,813 | 4,426 | (24) | - | (3,277) | 25 | 7,963 |

As at 31 December 2011, intangible assets net of amortisation totalled Euro 7,963 thousand, up Euro 1,150 thousand on the previous year.

Increases for the period totalled Euro 4,426 thousand mainly consisting in: (i) development costs capitalised of Euro 3,959 thousand related to new product and equipment development projects for which positive cash flows are expected to be generated in future years, (ii) temporary goodwill of Euro 394 thousand generated from acquisition of the I-Light business unit by the subsidiary Tesmec Service S.p.A. in July 2011. As provided by IFRS 3, within 12 months after the transaction (i.e. July 2012), the recording of the acquisition will be completed through the final allocation of the paid purchase price. The investment was carried out for developing the technology called 'Smart Grid' and for the acquisition of two contracts for sale entered into by I-Light. Research and development projects undertaken at European level in the field of applications of this technology are also included.

Acquisition of the I-Light business unit

The breakdown of the acquisition is set below:

| Book values of the acquired company | Business unit I-light |
|--|--------------------------|
| <i>(Euro in thousands)</i> | |
| Assets | |
| Equipment | 8 |
| Total assets | 8 |
| Liabilities | |
| Other payables | 2 |
| Total liabilities | 2 |
| Fair value of net assets acquired/sold | 6 |
| Consideration for the acquisition/sale | (400) |
| Difference between consideration paid and net assets acquired | 394 |

Where signs of impairment and the result of impairment tests suggest 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 2010:

| | 01/01/2010 | Increases due to purchases | Decreases | Reclassifications | Amortisation | Exchange rate differences | 31/12/2010 |
|--|--------------|-------------------------------|-------------|-------------------|----------------|------------------------------|--------------|
| <i>(Euro in thousands)</i> | | | | | | | |
| 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 intangible assets | 5,680 | 4,358 | (22) | - | (3,248) | 45 | 6,813 |

7. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2011 and as at 31 December 2010 is indicated in the table below:

| | 31 December | | | | | |
|--|-----------------|-----------------|---------------|-----------------|----------------|---------------|
| | 2011 | | | 2010 | | |
| | Historical cost | Accum. depr. | Net value | Historical cost | Accum. depr. | Net value |
| <i>(Euro in thousands)</i> | | | | | | |
| Land | 4,196 | - | 4,196 | 174 | - | 174 |
| Buildings | 25,140 | (1,968) | 23,172 | 6,620 | (1,239) | 5,381 |
| Plant and machinery | 10,604 | (5,009) | 5,595 | 9,866 | (4,069) | 5,797 |
| Equipment | 2,504 | (1,907) | 597 | 2,109 | (1,669) | 440 |
| Other assets | 7,456 | (2,424) | 5,032 | 8,227 | (2,066) | 6,161 |
| Assets in progress and advance payments to suppliers | 289 | - | 289 | 40 | - | 40 |
| Total property, plant and equipment | 50,189 | (11,308) | 38,881 | 27,036 | (9,043) | 17,993 |

Including leased property, plant and equipment:

| | 31 December | | | | | |
|--|-----------------|----------------|---------------|-----------------|--------------|--------------|
| | 2011 | | | 2010 | | |
| | Historical cost | Accum. depr. | Net value | Historical cost | Accum. depr. | Net value |
| <i>(Euro in thousands)</i> | | | | | | |
| Land | 4,016 | - | 4,016 | - | - | - |
| Buildings | 18,296 | (524) | 17,772 | - | - | - |
| Plant and machinery | 2,715 | (592) | 2,123 | 3,002 | (622) | 2,380 |
| Equipment | 56 | (56) | - | 56 | (56) | - |
| Other assets | 606 | (324) | 282 | 336 | (301) | 35 |
| Assets in progress and advance payments to suppliers | - | - | - | - | - | - |
| Total property, plant and equipment | 25,689 | (1,496) | 24,193 | 3,394 | (979) | 2,415 |

The following table shows the changes in property, plant and equipment for the period ended 31 December 2011:

| | 01/01/2011 | Increases due to purchases | Decreases | Reclassifications | Depreciation | Exchange rate differences | 31/12/2011 |
|--|---------------|----------------------------|----------------|-------------------|----------------|---------------------------|---------------|
| <i>(Euro in thousands)</i> | | | | | | | |
| Land | 174 | 4,016 | - | - | - | 6 | 4,196 |
| Buildings | 5,381 | 18,303 | - | - | (678) | 166 | 23,172 |
| Plant and machinery | 5,797 | 672 | (5) | - | (894) | 25 | 5,595 |
| Equipment | 440 | 400 | - | - | (243) | - | 597 |
| Other assets | 6,161 | 1,234 | (1,708) | - | (695) | 40 | 5,032 |
| Assets in progress and advance payments to suppliers | 40 | 249 | - | - | - | - | 289 |
| Total property, plant and equipment | 17,993 | 24,874 | (1,713) | - | (2,510) | 237 | 38,881 |

In 2011, the Tesmec Group invested in property, plant and equipment, net of disinvestments, an overall amount of Euro 23,161 thousand.

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

- *land and buildings* overall investment of Euro 22,319 of which Euro 22,312 thousand as a result of the effect of the new lease contract described in paragraph 5;
- *plant and equipment* overall investment of Euro 667 thousand mainly related to: (i) installation of two new painting systems in the factories of Grassobbio and Endine of Euro 160 thousand and Euro 146 thousand, respectively with lease contracts, (ii) adjustment to the regulations in force of the fume extraction plant at the premises of Grassobbio of Euro 137 thousand, (iii) modernisation of the production plant of Sirone of Euro 90 thousand;
- *equipment* increases of Euro 400 thousand, following the internationalisation choice of some phases of the production process that required the purchase of new equipment;
- *other assets* decreased by a net amount of Euro 474 thousand, the increase mainly refers to the increase in the trencher fleet used by the Tesmec USA associate for rental/service activities offset however by the sale of four trenchers for which the buy option envisaged in the rental contracts was exercised;
- *property, plant and equipment in progress* increased of Euro 249 thousand related to the construction of a new layer machine to meet the growing demand for anti-twist rope in the stringing equipment market.

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

| <i>(Euro in thousands)</i> | 01/01/2010 | Increases due to purchases | Decreases | Reclassifications | Depreciation | Exchange rate differences | 31/12/2010 |
|--|---------------|----------------------------|----------------|-------------------|----------------|---------------------------|---------------|
| Land | 160 | - | - | - | - | 14 | 174 |
| Buildings | 5,182 | 10 | - | - | (217) | 406 | 5,381 |
| Plant and machinery | 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 in progress and advance payments to suppliers | 18 | 40 | (18) | - | - | - | 40 |
| Total property, plant and equipment | 17,183 | 3,548 | (1,009) | - | (2,269) | 540 | 17,993 |



8. Investments in associated companies measured at equity method

The breakdown of investments in associated company measured at equity method as at 31 December 2011 and 2010 is indicated in the table below:

| (Euro in thousands) | 31 December | |
|--|--------------|--------------|
| | 2011 | 2010 |
| Associated companies: | | |
| Locavert SA | 265 | 186 |
| Zao Sibtechmash | - | - |
| Consorzio Stabile Energie Locali S.c.a.r.l. | - | 3 |
| Consorzio Lombartech | 2 | 15 |
| East Trenchers | 10 | 11 |
| Subtotal | 277 | 215 |
| Joint ventures: | | |
| Consorzio TR Scarl | - | - |
| Condux Tesmec Inc | 1,102 | 1,041 |
| Tesmec Peninsula WLL | - | - |
| Subtotal | 1,102 | 1,041 |
| Total Equity investments measured using the equity method | 1,379 | 1,256 |

On 27 May 2011 the Tesmec Service S.p.A. subsidiary sold to third parties its entire investment in Consorzio Stabile Energie Locali S.c.a.r.l. at the price of Euro 2,400 (equal to the book value) since it was considered no longer strategic to Group objectives.

On 23 December 2011, the Parent Company sold the investment in TR Società Consortile in liquidation, at the price of Euro 1 (recorded in the financial statements at a value of Euro 5,000) to a related party.

A Joint Venture, Tesmec Peninsula WLL, was set up in Qatar in March 2011 together with the local shareholder represented by the Mustafawi family, owner of the QBC (Qatar Building Company) for over 30 years primary planning and construction company and market leader in Saudi Arabia and Qatar. The Joint Venture was set up through TME (Tesmec Middle East), company belonging to the QBC Group and already exclusive concessionaire - for a few years - of the trenchers of the Tesmec Group on the Qatar market. Following the application of the equity method to investments, accounting standard adopted by the Group on the Joint Ventures, the margin achieved by Tesmec S.p.A. on the machines sold in Saudi Arabia but still present in the warehouse of Tesmec Peninsula WLL as at 31 December 2011, was reversed against the value of the investment (if not sufficient, by creating a relevant covering provision).

The main budget items of associates are summarised below.

| | 31 December 2011 | | | | | | | |
|------------------------------|------------------|----------|------------|--------|-------------|----------------------|--|--|
| | % held | Revenues | Net income | Assets | Liabilities | Shareholders' equity | Equity investment value in the Consolidated Financial Statements | Value of provision for risks due to losses |
| <i>(Euro in thousands)</i> | | | | | | | | |
| Associated companies: | | | | | | | | |
| Locavert SA | 38.63% | 435 | 62 | 502 | 237 | 265 | 265 | - |
| Zao Sibtechmash | 20.00% | - | (2) | 4 | 11 | (7) | - | 7 |
| Consorzio Lombartech | 19.23% | 10 | 2 | 14 | 12 | 2 | 2 | - |
| East Trencher Srl | 24.00% | 31 | (0) | 42 | 32 | 10 | 10 | - |
| Joint ventures: | | | | | | | | |
| Condux Tesmec Inc. | 50.00% | 2,536 | 24 | 2,362 | 1,260 | 1,102 | 1,102 | - |
| Tesmec Peninsula | 49.00% | 668 | (98) | 7,429 | 7,154 | 275 | - | 1,117 |

9. 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).

10. Financial receivables and other non-current assets

The following table sets forth the breakdown of financial receivables and other non-current assets as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|---|-------------|----------|
| | 2011 | 2010 |
| Guarantee deposits | 19 | 7 |
| Financial receivables from third parties | 963 | - |
| Total financial receivables and other non-current financial assets | 982 | 7 |

The change in *Financial receivables and other current assets* compared to the prior financial period increased of Euro 975 thousand and is mainly linked to the entry of financial receivables from third parties generated by the recognition of finance leases in accordance with IAS 17 of rental contracts by the Tesmec USA associate.

Current assets

11. Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|----------------------------------|---------------|---------------|
| | 2011 | 2010 |
| Raw materials and consumables | 26,500 | 27,416 |
| Work in progress | 6,073 | 7,828 |
| Finished goods and merchandise | 9,009 | 6,540 |
| Advances to suppliers for assets | 499 | 436 |
| Total Inventories | 42,081 | 42,220 |

The measurement bases of inventories remained unchanged compared to the prior financial period. The item as a whole decreased by 0.3% of Euro 139 thousand. This decrease compared to the increase in revenues (+6.2%) 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 2011 and 2010 are indicated in the table below:

| (Euro in thousands) | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| Value as at 1 January | 1,847 | 1,709 |
| Provisions | 26 | 273 |
| Uses | - | (174) |
| Exchange rate differences | 23 | 39 |
| Total provisions for inventory obsolescence | 1,896 | 1,847 |

The value of the provisions for inventory obsolescence increased by Euro 49 thousand 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.

12. Trade receivables

The following table sets forth the breakdown of trade receivables as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Trade receivables from third-party customers | 30,409 | 29,503 |
| Trade receivables from associates, related parties and joint ventures | 13,493 | 2,979 |
| Total trade receivables | 43,902 | 32,482 |

For terms and conditions relating to receivables from related parties, refer to paragraph 37.

Trade receivables from customers as at 31 December 2011 amounted to Euro 43,902 thousand up by Euro 11,420 thousand compared to the 2010 financial period.

Trade receivables include Euro 30,731 thousand of receivables due within one year; the residual due by less than one month is Euro 1,743 thousand, whereas the remaining part expired more than a month ago.

Supplies to customers located in specific geographical areas, mainly BRIC, 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 gain of Euro 992 thousand as at 31 December 2011.

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 2011 and 2010 are indicated in the table below:

| (Euro in thousands) | Financial period ended 31 December | |
|---|------------------------------------|------------|
| | 2011 | 2010 |
| Value as at 1 January | 727 | 904 |
| Provisions | 400 | 1,293 |
| Uses | (272) | (1,505) |
| Exchange rate differences | (9) | 35 |
| Total provisions for doubtful accounts | 846 | 727 |

Provisions and uses of the 2011 financial period related to the provisions for doubtful accounts are included in "other operating (costs)/revenues, net" of the income statement.

13. Tax receivables

The following table sets forth the breakdown of tax receivables as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|---|-------------|------------|
| | 2011 | 2010 |
| Receivables from tax authorities for documented development costs | - | - |
| IRES receivables | 9 | 6 |
| Other tax receivables | 51 | 429 |
| Total tax receivables | 60 | 435 |

Tax receivables as at 31 December 2011 mainly 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.

14. Other available-for-sale securities

The following table sets forth the breakdown of other available-for-sale securities as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|-------------|------------|
| | 2011 | 2010 |
| Shares of Banco Popolare Italiano | 8 | 9 |
| Shares of Banca Popolare di Vicenza | 94 | 92 |
| Total other available-for-sale securities | 102 | 101 |

Other available-for-sale securities as at 31 December 2011 consists of 8,054 shares of Banco Popolare Italiano for a unit value of Euro 1 and of 1,512 shares of Banca Popolare di Vicenza for a unit value of Euro 61.627, these shares were purchased on 30 December 2010.

15. Financial receivables and other current financial assets

The following table sets forth the breakdown of financial receivables and other current financial assets as at 31 December 2011 and as at 31 December 2010:

| (Euro in thousands) | 31 December | |
|---|--------------|------------|
| | 2011 | 2010 |
| Financial receivables due from associates, related parties and joint ventures | 1,157 | 226 |
| Financial receivables from third parties | 1,025 | - |
| Guarantee deposits | - | 15 |
| Other current financial assets | 74 | 62 |
| Total financial receivables and other current financial assets | 2,256 | 303 |

The increase in *financial receivables and other current financial assets* (Euro 1,953 thousand) is generated by the following factors: (i) for Euro 864 thousand by the portion not referable to the lease contract between Tesmec S.p.A. and Dream Immobiliare S.r.l. of the initial disbursement carried out by the company of Euro 2,700 thousand as an advance payment/deposit to secure the right of option of takeover in the original contract of financial lease signed by Dream Immobiliare S.r.l. as described in paragraph 5 of the explanatory notes, (ii) for Euro 1,025 thousand due to the recording of the short-term portion of financial receivables from third parties generated by the Tesmec USA associate. For terms and conditions relating to receivables from related parties, refer to paragraph 38.

16. Other current assets

The following table sets forth the breakdown of other current assets as at 31 December 2011 and as at 31 December 2010:

| (Euro in thousands) | 31 December | |
|-----------------------------------|--------------|--------------|
| | 2011 | 2010 |
| Accrued income | 6 | 2 |
| Prepaid expenses | 382 | 598 |
| VAT credit | 1,448 | 389 |
| Other receivables | 388 | 457 |
| Advance to suppliers for services | 67 | 96 |
| Total other current assets | 2,291 | 1,542 |

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

Prepaid expenses amounted to Euro 382 thousand as at 31 December 2011 whereas they amounted to Euro 598 thousand as at 31 December 2010 and they mainly refer to advance payments of insurance premiums and operating rentals.

VAT credit, which amounted to Euro 1,448 thousand as at 31 December 2011, increased by Euro 1,059 thousand compared to 31 December 2010.

Other receivables as at 31 December 2011 amounted to Euro 388 thousand compared to Euro 457 thousand as at 31 December 2010.

Advance to suppliers as at 31 December 2011 amounted to Euro 67 thousand compared to Euro 96 thousand as at 31 December 2010, they mainly refer to advance payments to suppliers for the purchase of services.

17. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|---------------|--------------|
| | 2011 | 2010 |
| Bank and post office deposits | 13,758 | 7,696 |
| Cash on hand | 55 | 71 |
| Other cash and cash equivalents | 4 | - |
| Total cash and cash equivalents | 13,817 | 7,767 |

Cash and cash equivalents are deposited in current deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December amounts to Euro 13,817 thousand and increased of Euro 6,050 thousand thanks to the positive cash flows achieved at year end.

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.

18. Shareholders' equity

Equity

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|---|--------------|--------------|
| | 2011 | 2010 |
| Revaluation reserve | 86 | 86 |
| Extraordinary reserve | 9,728 | 6,502 |
| Change in the consolidation area | (24) | - |
| Retained earnings/(losses brought forward) | 3,743 | 5,043 |
| Bills charged directly to equity on operations with entities <i>under common control</i> | (4,048) | (4,048) |
| Total other reserves | 9,485 | 7,583 |

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

The *change in the consolidation area* that has led to a decrease in other reserves of Euro 24 thousand is related to the purchase of the share owned by Mela Verde OOD in the Tesmec Balkani EAD company and to the deconsolidation of the TR Società Consortile company.

Following the resolution of 28 April 2011, the Shareholders' Meeting approved the allocation of 2010 profits of Euro 6,552 thousand as follows:

- Euro 328 thousand to the legal reserve;
- Euro 3,226 thousand to the extraordinary reserve;
- Distribution of dividends of Euro 2,998 thousand (Euro 0.028 per share).

Non-current liabilities

19. Interest-bearing financial payables

Interest bearing financial payables includes 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 2011 and as at 31 December 2010, with separate disclosure of the current portion:

| | 31 December | | | |
|--|-------------|-----------------------------|-------|-----------------------------|
| | 2011 | of which current portion | 2010 | of which current portion |
| <i>(Euro in thousands)</i> | | | | |
| Efibanca - loan reformulated on 27 January 2011, value Euro 3.75 million with maturity date 26 July 2012; floating interest rate equivalent to 3-month Euribor rate + spread of 1.50%. | 1,875 | 1,875 | 3,750 | 1,875 |
| <i>Eracle Finance</i> - non-preferential unsecured loan drawn down on 13 July 2006 from JP Morgan Chase Bank and transferred on 2 August 2006 to <i>Eracle Finance</i> ; original value Euro 4 million; repayable in a single instalment on 31 July 2013; fixed interest rate of 7.61% + floating interest rate <0.0% and 0.1%> equivalent to 3-month Euribor rate + spread of 1.10%. | 3,965 | - | 3,930 | - |
| Banca Popolare di Lodi - unsecured 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; floating interest rate equivalent to 3-month Euribor rate + spread of 1.50% | 500 | 400 | 900 | 400 |
| 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; floating interest rate equivalent to 3-month Euribor rate + spread of 1.70%. | 1,106 | 392 | 1,487 | 381 |
| Banca Popolare dell'Emilia Romagna - unsecured loan 70% backed by Sace guarantee; original value Euro 2 million; drawn down on 20 October 2009 with maturity date 31 December 2014; fixed annual interest rate of 4.2% | 1,250 | 399 | 1,633 | 383 |
| Banca Nazionale del Lavoro - loan at floating interest rate with a 2-year pre-amortisation; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; floating interest rate equivalent to 6-month Euribor rate + spread of 2.25% | 6,000 | 462 | 6,000 | - |
| Banca Popolare di Milano - loan at floating interest rate; original value Euro 2 million; drawn down on 16 June 2010 with maturity date 30 June 2011; floating interest rate equivalent to 3-month Euribor rate + spread of 2% | - | - | 1,007 | 1,007 |
| BNL-BNP Paribas Group - loan in pool; original value Euro 21 million, drawn down on 11 March 2011 Euro 8 million with maturity date 4 March 2016, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) and on 4 and 5 August 2011 Euro 4 million and on 9 November 2011 Euro 2 million, maturity date 4 March 2013, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) with option to extend repayment in 54 months (in 9 deferred half-yearly instalments) last instalment expiring on 4 September 2017, 6-month Euribor rate + spread of 1.90% (+/- 0.25). | 13,408 | 833 | - | - |
| Banca Popolare dell'Emilia Romagna - Bullet unsecured loan 70% backed by Sace guarantee; original value Euro 2.5 million; drawn down on 6 July 2011 with maturity date 31 December 2012; floating interest rate equivalent to 3-month Euribor rate + spread of 1.65%. | 2,488 | 2,488 | - | - |
| Credito Valtellinese - unsecured loan of Euro 2 million 50% backed by Sace guarantee, drawn down on 23 December 2011 with maturity date 31 December 2014, floating interest | 1,988 | 633 | - | - |

rate equivalent to 3-month Euribor rate + spread of 3%.

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

Southwest Securities - loan received by TESMEC USA; original value USD 2.9 million; drawn down in 2009; with the possibility of reviewing the terms of the contract every 5 years; floating interest rate equivalent to the US Prime Rate + spread of 1%. The loan contract specifies a minimum interest rate of 6%

- - 3,078 3,078

Total Interest-bearing financial payables **32,580** **7,482** **23,318** **8,657**

Less current portion (7,482) (8,657)

Non-current portion of Interest-bearing financial payables **25,098** **14,661**

Loan due to Simest 3,696 3,696

Total medium/long term loans **28,794** **18,357**

Non-current portion of finance leases 22,760 1,494 2,045 421

Less current portion (1,494) (421)

Non-current portion of finance leases, net **21,266** **1,624**

Total current portion **8,976** **9,078**

Interest-bearing financial payables **50,060** **19,981**

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 as at 31 December 2011, all expected covenants have been observed, with the exception of a financial parameter related to the Efibanca loan agreement. With regard to this point, the entire amount of the loan is classified as a short term because, in accordance with the original repayment plan, the remaining portion of Euro 1,875 thousand will be fully repaid during the 2012 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 agreement partially aims at refinancing all the existing payable to Southwest Securities that will be repaid within the first half of 2011 (of Euro 4.6 million). During the year, a total of Euro 14 million repayable in half-yearly instalments until March 2016 was disbursed.

During financial period, Tesmec S.p.A. raised two new loans with important banks: a loan of Euro 2,500 thousand with Banca Popolare dell'Emilia Romagna with maturity date on 31 December 2012 and another loan of Euro 2,000 thousand with Credito Valtellinese with maturity date on 31 December 2014.

The New lease contract described in paragraph 5, recorded in accordance with IAS 17, led to the entry of notional interest-bearing financial loans and borrowings in *non-current portion of finance leases* of Euro 19,686 thousand, equal to discounted future instalments.

The loan due to Simest of Euro 3,696 thousand derives from Tesmec USA's share capital increase carried out in January 2010.

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 2011, 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 2011 | Portion within 12 months | Portion within 5 years | Portion after more than 5 years |
|--|-----------|--|---------------------------------------|--------------------------|------------------------|---------------------------------|
| Efibanca | 30-Jun-12 | floating interest rate equivalent to 3-month Euribor rate + spread of 1.7% | 1,875 | 1,875 | - | - |
| Eracle Finance | 31-Jul-13 | fixed interest rate of 7.61% + floating interest rate <0.0% and 0.1%> equivalent to 3-month Euribor rate + spread of 1.10% | 3,965 | - | 3,965 | - |
| Banca Popolare di Lodi | 31-Mar-13 | floating interest rate equivalent to 3-month Euribor rate + spread of 1.5% | 500 | 400 | 100 | - |
| Iccrea Banca - Istituto Centrale del Credito Cooperativo | 30-Sep-14 | floating interest rate equivalent to 3-month Euribor rate + spread of 1.70% | 1,106 | 392 | 714 | - |
| Banca Popolare dell'Emilia Romagna | 31-Dec-14 | Fixed interest rate of 4.2% | 1,250 | 399 | 851 | - |
| Banca Nazionale del Lavoro | 31-May-18 | floating interest rate equivalent to 6-month Euribor rate + spread of 2.25% | 6,000 | 462 | 3,692 | 1,846 |
| Banca Nazionale del Lavoro | 04-Mar-16 | 6-month Euribor rate + spread of 2% (+/- 0.25) | 13,408 | 833 | 12,575 | - |
| Popolare Emilia Romagna | 31-Dec-12 | 3-month Euribor rate + spread of 1.65% | 2,488 | 2,488 | - | - |
| Credito Valtellinese | 31-Dec-14 | floating interest rate equivalent to 3-month Euribor rate + spread of 3% | 1,988 | 633 | 1,355 | - |
| Total | | | 32,580 | 7,482 | 23,252 | 1,846 |

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 | | | |
|---|---------------|---|---------------|---|
| | 2011 | of which with related parties and group | 2010 | of which with related parties and group |
| <i>(Euro in thousands)</i> | | | | |
| Cash and cash equivalents | (13,817) | | (7,767) | |
| Current financial assets ⁽¹⁾ | (2,358) | (1,157) | (404) | (226) |
| Current financial liabilities | 25,390 | 740 | 20,773 | - |
| Current portion of derivative financial instruments | - | | 90 | |
| Current financial indebtedness ⁽²⁾ | 9,215 | (417) | 12,692 | (226) |
| Non-current financial liabilities | 50,060 | 18,946 | 19,981 | - |
| Non-current portion of derivative financial instruments | 323 | | 34 | |
| Non-current financial indebtedness ⁽²⁾ | 50,383 | 18,946 | 20,015 | - |
| Net financial indebtedness pursuant to Consob Communication No. DEM/6064293/2006 | 59,598 | 18,529 | 32,707 | (226) |

⁽¹⁾ The current financial assets as at 31 December 2011 and 31 December 2010 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 recognised as a measure of performance 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 balances achieved by the Group may not be comparable with theirs.

During the 2011 financial period, the Group's *net financial indebtedness* increased compared to 2010 by Euro 26,891 thousand, due to the combined effect of the following changes:

- increase in *current financial liabilities* from Euro 20,773 thousand to Euro 25,390 thousand, of which Euro 740 thousand due to recognition of the short-term portion of the loan relating to the new lease contract described in paragraph 5 and the remainder to greater recourse to advances on exports;

- increase in *non-current financial liabilities* from Euro 19,981 thousand to Euro 50,060 thousand mainly due to: (i) net increase in financial leases (Euro 21,266 thousand as at 31 December 2011 compared to Euro 1,624 thousand as at 31 December 2010), including Euro 18,946 thousand resulting from the new lease contract described in paragraph 5, (ii) use of Euro 14 million of the new credit facility granted by BNL and (iii) reclassification to current financial liabilities of Euro 7,684 thousand as the short-term portion of medium/long-term loans. Net of the effects of the new lease contract described in paragraph 5, the net financial indebtedness would increase by Euro 37.9 million reflecting in parallel the changes in working capital described above.

The above are offset by:

- increase in *current financial assets* from Euro 404 thousand to Euro 2,358 thousand mainly due to (i) the recording of a short-term borrowing deriving from the recognition in accordance with IAS 17 of rental contracts by the Tesmec USA associate of Euro 1,009 and (ii) the classification in accordance with IAS 17 of the portion not referable to the Lease Contracts between Tesmec S.p.A. and Dream Immobiliare S.r.l. of the initial disbursement carried out by the Company of Euro 864 thousand as an advance payment/deposit to secure the right of option of takeover in the original contract of financial lease signed by Dream Immobiliare S.r.l. (see paragraph 5);

20. Derivative financial instruments

The Group signed some contracts related to derivative financial instruments whose contractual characteristics and related fair value as at 31 December 2011 and 2010 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 | |
|---|------|---|---------------------------------|------------|---------------|---------------------------|---|------|
| | | | | | | | 2011 | 2010 |
| BNL | IRS | Fixed interest rate 4.6% | Euribor 3 months | 02/10/2008 | 02/10/2011 | 2,500,000 | - | (90) |
| Banca Popolare di Lodi | IRS | Fixed interest rate 4.25% | Euribor 3 months | 31/03/2008 | 31/03/2013 | 900,000 | (12) | (34) |
| 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 | (95) | 131 |
| BNL | IRS | Fixed interest rate 2.57% | Euribor 3 months | 07/07/2011 | 04/03/2016 | | (216) | - |
| Assets for derivative instruments | | | | | | | - | 131 |
| Liabilities for derivative instruments within the financial period | | | | | | | - | (90) |
| Liabilities for derivative instruments beyond the financial period | | | | | | | (323) | (34) |

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.



21. Employee benefit liability

The Group has no defined benefit pension plans in the strict sense. However, the severance indemnity fund allocated by the Parent Company 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 31 December 2011 and 31 December 2010 of employee benefits:

| | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Present value of the liability at the beginning of the period | 2,968 | 3,211 |
| Curtailment | - | - |
| Financial expense | 121 | 135 |
| Transfers | - | - |
| Benefits paid | (545) | (411) |
| Actuarial profit / loss recognised | (41) | 33 |
| Present value of the liability at the end of the period | 2,503 | 2,968 |

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 | |
|-------------------------------------|------------------------------------|-------|
| | 2011 | 2010 |
| 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 | |
|----------------|------------------------------------|------------------|
| | 2011 | 2010 |
| Mortality | IPS55 tables | IPS55 tables |
| Disability | INPS-2000 tables | INPS-2000 tables |
| Retirement age | 65.4 | 59.13 |

Frequency of turnover and advances on severance indemnity

| | Financial period ended 31 December | |
|----------------------|------------------------------------|--------|
| | 2011 | 2010 |
| Advance frequency % | 1.00% | 1.70% |
| Turnover frequency % | 12.46% | 16.00% |

Workforce

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

| (average no. of employees) | Financial period ended 31 December | | | |
|--|------------------------------------|------------|---------------|--------------|
| | 2011 | 2010 | 2011 vs. 2010 | % |
| Tesmec SpA (including Beijing representative office) | 299 | 290 | 9 | 3.10% |
| Tesmec USA, Inc. | 53 | 56 | (3) | -5.36% |
| Tesmec SA | 2 | - | 2 | 100.00% |
| OOO Tesmec RUS | 2 | - | 2 | 100.00% |
| Tesmec Balkani EAD | 3 | - | 3 | 100.00% |
| Total | 359 | 346 | 13 | 3.76% |

The average number of employees as at 31 December 2011 shows the growing trend of the Group in 2011 related to the opening of new branches.

Current liabilities

22. Interest-bearing financial payables (current portion)

The following table sets forth the breakdown of *Interest bearing financial payables (current portion)* for the 2011 and 2010 financial periods:

| (Euro in thousands) | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| Advances from banks against invoices and bills receivables | 15,147 | 7,040 |
| Short-term portion of financial leases | 1,494 | 421 |
| Advances from factors | 1,057 | 760 |
| Current accounts overdraft | - | 3,895 |
| Short-term loans to third parties | 210 | - |
| Current portion of interest-bearing loans and borrowings | 7,482 | 8,657 |
| Total interest-bearing financial payables (current portion) | 25,390 | 20,773 |

The *advances from banks* amounts to Euro 15,147 thousand and increases by Euro 8,107 thousand as a result of a greater use of advances on discounted export invoices with more extended payment terms compared to the standard terms of the Group.

The decrease in the *current accounts overdraft* and *current portion of interest-bearing loans and borrowings* is due to the repayment both of the loans and of the revolving credit line granted to Tesmec USA by *Southwest Securities*.

23. Trade payables

The breakdown of *Trade payables* as at 31 December 2011 and as at 31 December 2010, respectively, is indicated in the table below:

| (Euro in thousands) | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| Trade payables due to third-parties | 26,494 | 26,207 |
| Trade payables due to associates, related parties and joint ventures | 35 | 84 |
| Total trade payables | 26,529 | 26,291 |

Trade payables as at 31 December 2011 increased by Euro 238 thousand compared to the prior financial period and they are substantially in line with the previous financial period.

24. Income taxes payable

The balance of Euro 2,648 thousand as at 31 December 2011, Euro 3,937 thousand as at 31 December 2010, represents the amount payable for current income taxes for the period.

| (Euro in thousands) | 31 December | |
|-----------------------------------|--------------|--------------|
| | 2011 | 2010 |
| IRPEF liabilities for employees | 476 | 512 |
| Current IRES tax liabilities | 1,216 | 2,809 |
| Current IRAP tax liabilities | 661 | 495 |
| Other current taxes | 273 | 90 |
| Withholding taxes | 22 | 31 |
| Total income taxes payable | 2,648 | 3,937 |

IREs and IRAP taxes payable as at 31 December 2011 includes the net payable due by the Group for the payment of direct income taxes. Other current taxes includes tax receivables accrued by the American associate.

25. 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 and partially to the adjustment of the value of consolidated investments by using the equity method. With reference to the guarantee fund, the calculation is based on a historical, statistical and technical analysis of the interventions under guarantee carried out on sales in prior financial periods and includes both the cost of labour and that for spare parts used.

Changes in the *Provisions for risks and charges* as at 31 December 2011 and 2010 are indicated below:

| (Euro in thousands) | Financial period ended 31 December | |
|--------------------------------|------------------------------------|------------|
| | 2011 | 2010 |
| Value as at 1 January | 836 | 751 |
| Provisions | 1,136 | 428 |
| Uses | (178) | (348) |
| Exchange-rate differences | 3 | 5 |
| Value as at 31 December | 1,797 | 836 |

Provisions for risks include the recording, in accordance with the equity method, the 49% reversal of the margin achieved by Tesmec S.p.A. with regard to *Joint Venture* Tesmec Peninsula WLL for sales of machinery carried out during the 2011 financial period by Tesmec S.p.A. but still present in the warehouse of Tesmec Peninsula WLL.

The uses include the amount of Euro 178 thousand allocated during the previous financial period, related to 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 this area, the company wrote down the assets relating to this service using the relevant provision already set aside in the course of 2010.

The remaining part of the Provisions for risks and charges refers to 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.

26. Other current liabilities

The following table sets forth the breakdown of *other current liabilities* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|--------------|--------------|
| | 2011 | 2010 |
| Due to social security | 678 | 713 |
| Due to INAIL (National Insurance Institute for Industrial Accidents) | (8) | 1 |
| Due to trade funds | 118 | 118 |
| Due to employees and collaborators | 2,014 | 1,985 |
| Due to others | 175 | 10 |
| Accrued expenses and liabilities | 644 | 447 |
| Total other current liabilities | 3,621 | 3,274 |

Other current liabilities increased compared to the prior financial period of Euro 347 thousand.

27. Income taxes

Deferred tax assets and liabilities

The following table sets forth the breakdown of deferred taxes as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--------------------------|-------------|-------|
| | 2011 | 2010 |
| Deferred tax assets | 4,771 | 4,912 |
| Deferred tax liabilities | 1,371 | 936 |



The breakdown of net deferred taxes as at 31 December 2011 and 2010 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 | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | | | | | |
| Deferred tax assets | | | | | | |
| Maintenance charges | 5 | 10 | - | - | (5) | (6) |
| Guarantee fund | 165 | 165 | (8) | - | 8 | (30) |
| Provision for risks | - | 49 | - | - | (49) | 49 |
| Obsolescence fund | 377 | 377 | - | - | - | - |
| Provisions for doubtful accounts | 125 | 72 | - | - | 53 | (33) |
| Unrealised exchange-rate losses | 72 | 100 | - | - | (28) | 57 |
| Tax effect on UCC gain reversals | 842 | 1,127 | - | (246) | (285) | (147) |
| Reversals of intangible assets | 232 | 302 | - | 22 | (70) | (15) |
| Tax effect on selling margin adjustments (IAS 18) TESMEC Service | 11 | 47 | - | - | (36) | 47 |
| Tax effect on selling margin adjustments (IAS 18) TESMEC USA | 62 | 62 | - | - | - | 62 |
| Tax effect on selling margin adjustments (IAS 18) TESMEC Peninsula | 351 | - | - | - | 351 | - |
| Deferred tax assets TESMEC USA | 326 | 452 | (74) | 3 | (52) | (92) |
| Deferred tax assets on previous tax losses TESMEC USA | 1,151 | 837 | 48 | 6 | 266 | 668 |
| Deferred tax assets on previous tax losses TESMEC Service | - | - | - | - | - | (112) |
| Development costs | 59 | 81 | - | - | (22) | 81 |
| Listing expenses | 919 | 1,225 | - | 584 | (306) | 641 |
| Other temporary differences | 74 | 6 | 68 | - | - | 6 |
| Total deferred tax assets | 4,771 | 4,912 | 34 | 369 | (175) | 1,176 |
| Deferred tax liabilities | | | | | | |
| Unrealised exchange-rate gains | (470) | (66) | - | - | (404) | (47) |
| Selling margin pertaining for tax purposes to subs. financial periods | (27) | (27) | - | - | - | 316 |
| <i>Financial lease accounting method</i> | (110) | (109) | (7) | 223 | 6 | 29 |
| Difference of value - USA building | (367) | (275) | (91) | (19) | (1) | 7 |
| Deferred tax liabilities TESMEC USA | (288) | (357) | 70 | (49) | (1) | 61 |
| Other temporary differences | (109) | (102) | 7 | - | (14) | 15 |
| Total deferred tax liabilities | (1,371) | (936) | (21) | 155 | (414) | 381 |
| Effect on Shareholders' Equity | | | | | | |
| <i>Net balance deferred wealth taxes</i> | 3,400 | | | | | |
| <i>Represented in the Income statement as follows:</i> | | | | | | |
| <i>Deferred tax assets</i> | (175) | | | | | |
| <i>Deferred tax liabilities</i> | (414) | | | | | |
| Deferred tax liabilities, net | (589) | | | | | |

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2011 and 2010 are summarised below:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|--|------------------------------------|----------------|
| | 2011 | 2010 |
| Consolidated pre-tax profits | 10,755 | 7,998 |
| Current taxation: | | |
| Italy | (3,576) | (4,252) |
| USA | - | (89) |
| Rest of the World | - | - |
| Deferred tax liabilities/assets | | |
| Italy | (810) | 936 |
| USA | 221 | 621 |
| Rest of the World | - | - |
| Total Income taxes | (4,165) | (2,784) |

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:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|--|------------------------------------|----------------|
| | 2011 | 2010 |
| Profit before tax | 10,755 | 7,998 |
| Ires tax rate in force during the period | 27.50% | 27.50% |
| Theoretical tax charge | (2,958) | (2,199) |
| Irap | (953) | (782) |
| Permanent tax differences | (196) | 324 |
| Effect of different tax rate for foreign companies | (58) | (127) |
| Total difference | (254) | 197 |
| Total tax charge as per income statement | (4,165) | (2,784) |

Comments to the main items in the income statement

28. Revenues from sales and services

In the 2011 and 2010 financial periods, revenues from sales and services amounted to Euro 111,779 thousand and Euro 105,280 thousand, respectively.

The breakdown of revenues from sales and services for the 2011 and 2010 financial periods is shown below:

| (Euro in thousands) | Financial period ended 31 December | |
|---|------------------------------------|----------------|
| | 2011 | 2010 |
| Sales of products | 110,017 | 100,107 |
| Services rendered | 1,762 | 5,173 |
| Total revenues from sales and services | 111,779 | 105,280 |

The breakdown of *revenues from sales and services* shows an increase of Euro 6,499 thousand due to the increase in sales volumes in both the Stringing equipment, strengthening the growth data occurred in the previous financial period of +46%, and Trencher segments, with a recovery in the American market, absorbing the negative effect of EUR/USD exchange rates. Revenues from sales and services include sales of machinery carried out with regard to Joint Venture Tesmec Peninsula WLL, thanks to its initiative, the Group started the commercial penetration in the Saudi Arabian market. These activities could benefit from, inter alia, the contribution of the TME partner skills with which the Group achieved a considerable commercial success in Qatar. If some machines sold are still present in the warehouse of the Joint Venture as at 31 December 2011, the margin achieved with regard to it (for the stake in the company, i.e. 49%) was reversed as provided by the application of the consolidation using the equity method applied by the Group on the Joint Ventures.

29. Cost of raw materials and consumables

For the financial periods as at 31 December 2011 and 2010, cost of raw materials and consumables amount to Euro 55,684 thousand and Euro 48,678 thousand, respectively.

The breakdown of the item is as follows:

| (Euro in thousands) | Financial period ended 31 December | |
|--|------------------------------------|---------------|
| | 2011 | 2010 |
| Cost for the purchase of raw materials and consumables | 55,253 | 47,941 |
| Change in inventories | 431 | 737 |
| Total cost of raw materials and consumables | 55,684 | 48,678 |

The increase in *cost of raw materials and consumables* is due to: (i) increase proportional to sales volumes, (ii) recording as established by the consolidation accounting standards of the adjustment of the margin of Euro 1,387 thousand achieved with the Joint-ventures as described in paragraph 28 and (ii) the choice of outsourced work for the purchase of semi-finished goods considering the savings that the supplies from Countries with low labour costs but with high-quality levels succeeded in providing.

30. Costs for services

The table below shows the breakdown of *recurring and non-recurring costs for services* that amounted in 2011 and in 2010 to Euro 20,881 thousand and Euro 24,111 thousand, respectively.

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|--|------------------------------------|---------------|
| | 2011 | 2010 |
| Transport, customs and incidental expenses | 2,477 | 2,724 |
| Outsourced work service | 4,054 | 4,911 |
| Services for legal, tax, technical and other consultancy | 3,846 | 7,194 |
| <i>of which non recurring</i> | - | 3,515 |
| External production services | 1,127 | 1,480 |
| Banking services | 621 | 527 |
| Insurance | 357 | 322 |
| Energy, water, gas, telephone expenses and postage | 1,238 | 1,127 |
| Board and lodging expenses and travelling allowance | 986 | 828 |
| Directors' and Auditors' fees | 800 | 861 |
| Advertising and other selling expenses | 477 | 683 |
| Maintenance services | 747 | 408 |
| Commissions and additional expenses | 3,400 | 2,331 |
| Other general expenses | 751 | 715 |
| Total costs for services | 20,881 | 24,111 |

The decrease of costs for services is due to the combined effect of:

- *costs related to outsourced work* together with *external production services*, which represent the variable component of this cost item, decreased by 19% from Euro 6,391 thousand in the 2010 financial period to Euro 5,181 thousand in the 2011 financial period. This phenomenon was possible thanks to the strategy of increasing, on the one hand, the production base of the company and, on the other, of choosing to purchase semi-finished goods instead of managing them in account for manufacture, operationally and economically more costly;
- *consultancy costs* of Euro 3,846 thousand in the 2011 financial period compared to Euro 7,194 thousand in the 2010 financial period. In 2010, this item included costs incurred for the listing process of the Parent Company and not attributable directly to equity totalling Euro 3,515 thousand. In the current financial period, the item includes costs related to new commercial initiatives on foreign markets where the Company made use of the experience of external consultants;
- *commissions and additional expenses* (Euro 2,331 thousand in the 2010 financial period and Euro 3,400 thousand in the 2011 financial period) increased by 46% and mainly refer to fees recognised to agents of the stringing department that allowed the Company to get into new market segments mainly in South America where the Group achieved significant volumes.

31. Payroll costs

During the financial periods ended 31 December 2011 and 2010, payroll costs amounted to Euro 17,846 thousand and Euro 17,119 thousand, respectively, up by 4.2%.

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|------------------------------|------------------------------------|---------------|
| | 2011 | 2010 |
| Wages and salaries | 13,469 | 13,143 |
| Social security charges | 3,644 | 3,289 |
| Employee severance indemnity | 623 | 627 |
| Other personnel costs | 128 | 60 |
| Total payroll costs | 17,864 | 17,119 |

The increase in this item is related to the adjustment of the personnel to pursue the expansion process of the Group and the internationalisation process of some phases of the production process considered strategic and economically more convenient than outsourced work.

32. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2011 and 2010, other net operating (costs)/revenues amounted to Euro 1,632 thousand and Euro 3,692 thousand, respectively, with a 61% decrease.

The breakdown of the item is as follows:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| Provisions for risks and other net provisions | 360 | 76 |
| Write-down of equity investments | - | - |
| Rents | 1,007 | 2,965 |
| Hiring | 424 | 382 |
| Other lease and rental expenses | 96 | 104 |
| Sundry taxes | 233 | 472 |
| Other revenues | (350) | (299) |
| Other | (138) | (8) |
| Total other operating (costs)/revenues, net | 1,632 | 3,692 |

Other operating (costs)/revenues, net decreased of Euro 2,060 thousand and is mainly attributable to the New Lease Contract described in paragraph 5 that led to a reduction of Euro 1,826 thousand in Rents. There are no particular changes to be reported compared to the previous financial period.

33. Amortisation and depreciation

During the financial periods ended 31 December 2011 and 2010, depreciation and amortisation amounted to Euro 5,787 thousand and Euro 5,517 thousand, respectively, with a 4.9% increase.

The breakdown of the item is as follows:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Amortisation of intangible assets | 3,277 | 3,248 |
| Depreciation of property, plant and equipment | 2,510 | 2,269 |
| Total amortisation and depreciation | 5,787 | 5,517 |

The change of Euro 82 thousand includes the depreciation deriving from the recognition in accordance with IAS 17 of the New Lease Contract described in paragraph 5 of Euro 524 thousand. Net of such effect, the decrease of Euro 254 thousand is mainly due to the interruption of the depreciation relevant to the period of non-use of the fleet assets.

34. development costs capitalised

Development costs capitalised for the financial periods ended 31 December 2011 and 31 December 2010 amounted to Euro 3,330 and Euro 3,399 thousand, respectively.

During the reporting period, the item did not change significantly and confirms the Group's willingness to pursue a continuous project development for the launch of new models and new functions requested by the markets in which the company operates, maintaining the leadership position in the segment.

35. Financial expenses

During the financial periods ended 31 December 2011 and 2010, financial expenses amounted to Euro 4,815 thousand and Euro 3,396 thousand, respectively, with a 42% increase.

The breakdown of the item is as follows:

| (Euro in thousands) | Financial period ended 31 December | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Bank interests expense | 105 | 631 |
| Interests payable for factoring and billing discounts | 443 | 386 |
| Interests payable on interest-bearing loans and borrowings | 1,273 | 1,002 |
| Interests payable on advance loans on exports | 400 | 487 |
| Interests payable on derivative instruments | - | - |
| Other sundry financial expenses | 177 | 153 |
| Financial expenses on lease contracts | 1,215 | 50 |
| Realised foreign exchange losses | 575 | 478 |
| Unrealised foreign exchange losses | 151 | 208 |
| Fair value adjustment of derivative instruments | 442 | 1 |
| Fair value adjustment of financial instruments available for sale | - | - |
| Total financial expenses | 4,781 | 3,396 |

Financial expenses increased of Euro 1,385 thousand as a result of:

- increase in *interest rates payable on interest-bearing loans and borrowings* of Euro 271 thousand following the drawing-up of new loan agreements;
- increase in *financial expenses on lease contracts* of Euro 1,165 thousand due to the amount of interests payable reported following the recognition in accordance with IAS 17 of the New Lease Contract described in paragraph 5 of Euro 1,103 thousand;
- *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;
- *fair value adjustment of derivative instruments* that in the 2011 financial period reported a loss of Euro 442.

36. Financial income

During the financial periods ended 31 December 2011 and 2010, financial income amounted to Euro 2,285 thousand and Euro 1,749 thousand, respectively.

The breakdown of the item is as follows:

| (Euro in thousands) | Financial period ended 31 December | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Interests from banks | 18 | 30 |
| Realised foreign exchange gains | 383 | 1,052 |
| Unrealised foreign exchange gains | 1,708 | 171 |
| Fair value adjustment of derivative instruments | 112 | 222 |
| Sundry income | 64 | 274 |
| Total financial income | 2,285 | 1,749 |

Financial income increased of Euro 536 thousand mainly due to the adjustment to the exchange rate in effect as at 31 December 2011 of the currency items.

37. Segment Reporting

For management purposes, Tesmec Group is organised 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 crawler trenchers 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.

| (Euro in thousands) | 31 December | | | | | | | |
|--|---------------------|---------------|----------------|----------------|---------------------|---------------|---------------|----------------|
| | 2011 | | | | 2010 | | | |
| | Stringing equipment | Trencher | Not allocated | Consolidated | Stringing equipment | Trencher | Not allocated | Consolidated |
| Intangible assets | 3,431 | 4,532 | - | 7,963 | 2,454 | 4,359 | - | 6,813 |
| Property, plant and equipment | 12,847 | 26,034 | - | 38,881 | 487 | 17,506 | - | 17,993 |
| Financial assets | 1,102 | 1,261 | - | 2,363 | 1,044 | 216 | 136 | 1,396 |
| Other non-current assets | - | 1,551 | 3,220 | 4,771 | - | 1,404 | 3,508 | 4,912 |
| Total non-current assets | 17,380 | 33,378 | 3,220 | 53,978 | 3,985 | 23,485 | 3,644 | 31,114 |
| Inventories | 11,937 | 30,144 | - | 42,081 | 10,518 | 31,702 | - | 42,220 |
| Trade receivables | 14,367 | 29,535 | - | 43,902 | 13,506 | 18,976 | - | 32,482 |
| Other current assets | - | 1,708 | 3,001 | 4,709 | 468 | 624 | 1,289 | 2,381 |
| Cash and cash equivalents | - | - | 13,817 | 13,817 | - | - | 7,767 | 7,767 |
| Total current assets | 26,304 | 61,387 | 16,818 | 104,509 | 24,492 | 51,302 | 9,056 | 84,850 |
| Total assets | 43,684 | 94,765 | 20,038 | 158,487 | 28,477 | 74,787 | 12,700 | 115,964 |
| Equity attributable to Parent Company Shareholders | - | - | 38,887 | 38,887 | - | - | 34,730 | 34,730 |
| Non-controlling Interests | - | - | - | - | - | - | 9 | 9 |
| Non-current liabilities | - | 1,230 | 53,027 | 54,257 | - | 945 | 22,974 | 23,919 |
| Current financial liabilities | - | - | 25,390 | 25,390 | - | - | 20,863 | 20,863 |
| Trade payables | 15,226 | 11,303 | - | 26,529 | 16,563 | 9,728 | - | 26,291 |
| Other current liabilities | 3,875 | 3,942 | 5,607 | 13,424 | 2,159 | 4,146 | 3,847 | 10,152 |
| Total current liabilities | 19,101 | 15,245 | 30,997 | 65,343 | 18,722 | 13,874 | 24,710 | 57,306 |
| Total liabilities | 19,101 | 16,475 | 84,024 | 119,600 | 18,722 | 14,819 | 47,684 | 81,225 |
| Total shareholders' equity and liabilities | 19,101 | 16,475 | 122,911 | 158,487 | 18,722 | 14,819 | 82,423 | 115,964 |

| | Financial period ended 31 December | | | | | |
|---|------------------------------------|----------|--------------|---------------------|----------|--------------|
| | 2011 | | | 2010 | | |
| | Stringing equipment | Trencher | Consolidated | Stringing equipment | Trencher | Consolidated |
| (Euro in thousands) | | | | | | |
| Revenues from sales and services | 65,282 | 46,497 | 111,779 | 65,065 | 40,215 | 105,280 |
| Operating costs net of non-recurring costs and of depreciation and amortisation | (50,414) | (42,317) | (92,731) | (52,348) | (34,338) | (86,686) |
| adj EBITDA ⁽¹⁾ | 14,868 | 4,180 | 19,048 | 12,717 | 5,877 | 18,594 |
| Non-recurring costs | | | - | (2,208) | (1,307) | (3,515) |
| EBITDA ⁽²⁾ | 14,868 | 4,180 | 19,048 | 10,509 | 4,570 | 15,079 |
| Amortisation and depreciation | (2,096) | (3,691) | (5,787) | (1,698) | (3,819) | (5,517) |
| Total operating costs | (52,510) | (46,008) | (98,518) | (56,254) | (39,464) | (95,718) |
| Operating income | 12,772 | 489 | 13,261 | 8,811 | 751 | 9,562 |
| Financial expenses and share of profit/(loss) | | | (2,506) | | | (1,564) |
| Pre-tax profits | | | 10,755 | | | 7,998 |
| Income taxes | | | (4,165) | | | (2,784) |
| Net profit for the period | | | 6,590 | | | 5,214 |
| Non-controlling interests | | | | | | (29) |
| Equity holders of the parent | | | 6,590 | | | 5,243 |

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.

38. Related party transactions

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

In particular, for the financial period ended 31 December 2011, the breakdown of each related party is indicated below:

| | Financial period ended 31 December | | | | | 31 December | | | | | | |
|---|------------------------------------|------------------------|--------------------|---------------------------------------|---|-------------------|-------------------------------|----------------------|----------------|-------------------------------|-----------------------------------|---------------------------|
| | 2011 | | | | | 2011 | | | | | | |
| | Revenues | Costs of raw materials | Costs for services | Other operating (costs)/revenues, net | Financial expenses and share of profit/loss | Trade receivables | Current financial receivables | Other current assets | Trade payables | Current financial liabilities | Non-current financial liabilities | Other current liabilities |
| <i>(Euro in thousands)</i> | | | | | | | | | | | | |
| Associated companies: | | | | | | | | | | | | |
| East Trencher S.r.l. | - | - | (117) | - | 5 | - | 51 | - | - | - | - | - |
| Locavert S.A. | 259 | - | - | - | - | 79 | - | - | - | - | - | - |
| Sibtechmash | - | - | - | - | - | 16 | - | - | - | - | - | - |
| Consorzio Stabile Energie Locali S.c.a.r.l. | - | - | - | - | - | - | - | - | - | - | - | - |
| Subtotal | 259 | - | (117) | - | 5 | 95 | 51 | - | - | - | - | - |
| Joint ventures: | | | | | | | | | | | | |
| Condux Tesmec Inc. | 2,393 | - | - | - | 44 | 1,442 | 35 | - | - | - | - | - |
| Tesmec Peninsula | 10,739 | (1,387) [*] | 66 | - | - | 10,257 | - | - | - | - | - | - |
| Subtotal | 13,132 | (1,387) | 66 | - | 44 | 11,699 | 35 | - | - | - | - | - |
| Related parties: | | | | | | | | | | | | |
| Ambrosio S.r.l. | - | - | - | (17) | - | - | - | - | 21 | - | - | - |
| Caterina Caccia Dominioni, Lawyer | - | - | (16) | - | - | - | - | - | (16) | - | - | - |
| Matteo Caccia Dominioni | - | - | - | - | - | - | - | - | 24 | - | - | - |
| CBF S.r.l. | - | - | - | (378) | - | - | - | 94 | - | - | - | - |
| Ceresio Tours S.r.l. | - | - | (15) | - | - | - | - | - | 1 | - | - | - |
| Dream Immobiliare S.r.l. | - | - | (24) | (311) | (1,099) | 2 | 1,069 | 183 | - | 740 | 18,946 | - |
| Eurofidi S.p.A. | - | - | - | - | - | - | 2 | - | - | - | - | - |
| FI.IND S.p.A. | - | - | 22 | - | - | 42 | - | - | - | - | - | - |
| Jaeggli Meccanotessile S.r.l. | - | - | (2) | - | (5) | - | - | - | 5 | - | - | - |
| Jaeggli S.p.A. | - | - | - | - | - | - | - | - | - | - | - | - |
| Lame Nautica S.r.l. | 2 | - | - | - | - | 1 | - | - | - | - | - | - |
| M.T.S. Officine Meccaniche S.p.A. | 1,915 | (24) | (131) | (2) | - | 1,470 | - | 2 | - | - | - | - |
| Reggiani Macchine S.p.A. | 3 | - | 142 | (35) | 23 | 184 | - | - | - | - | - | 17 |
| Subtotal | 1,920 | (24) | (24) | (743) | (1,081) | 1,699 | 1,071 | 279 | 35 | 740 | 18,946 | 17 |
| Total | 15,311 | (1,411) | (75) | (743) | (1,032) | 13,493 | 1,157 | 279 | 35 | 740 | 18,946 | 17 |

^(*) This amount is related to the reversal of the margin as described in paragraph 29.

- East Trenchers: 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 that traditionally are coupled with this kind of activity at market prices and terms of payment;
- Locavert: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;

- Condux Tesmec: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula: the JV set-up in the month of March 2011 operates on the market of Saudi Arabia. Revenues refer to sales carried out during 2011 with the Arab joint venture in order to penetrate the market of Saudi Arabia;
- Ambrosio: costs for services refer to the rental for the registered office of Milan;
- C.B.F.: the item "Other operating costs" includes the cost for the lease of the building of Sirone of Euro 378 thousand;
- Dream Immobiliare: financial income and expenses include interests payable deriving from the recognition in accordance with IAS 17 of the New Lease Contract described in paragraph 5 of Euro 1,103 thousand; other operating costs include the cost for the lease of the building of Endine of Euro 311 thousand;
- 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 costs related to users for a total amount of Euro 142 thousand.

The following table summarises related party transactions of the prior financial period:

| | Financial period ended 31 December | | | | | | 31 December | | | | | |
|---|------------------------------------|------------------------|--------------------|---------------------------------------|---|-------------------|-------------------------------|----------------------|----------------|-------------------------------|-----------------------------------|---------------------------|
| | 2010 | | | | | | 2010 | | | | | |
| | Revenues | Costs of raw materials | Costs for services | Other operating (costs)/revenues, net | Financial expenses and share of profit/loss | Trade receivables | Current financial receivables | Other current assets | Trade payables | Current financial liabilities | Non-current financial liabilities | Other current liabilities |
| <i>(Euro in thousands)</i> | | | | | | | | | | | | |
| 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 | - | - | - |

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

Year 2011:

| Board of Directors | | | | |
|-------------------------------|--------------------------------|----------------|--------------------------------------|----------------------|
| Name and Surname | Role | Fees (In Euro) | Bonus and other incentives (In Euro) | Total fees (In Euro) |
| Ambrogio Caccia Dominioni | Chairman and Managing Director | 450,000 | - | 450,000 |
| Alfredo Brignoli | Vice Chairman | 40,000 | - | 40,000 |
| Gianluca Bolelli | Vice Chairman | 52,000 | 70,000 | 122,000 |
| 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 | 12,480 | - | 12,480 |
| Michele Carlo Felice Milani | Director | 50,000 | - | 50,000 |
| Sergio Arnoldi | Director | 20,800 | - | 20,800 |
| Caterina Caccia Dominioni | Director and Secretary | 26,000 | 15,600 | 41,600 |

| Board of Statutory Auditors | | | | |
|-----------------------------|-------------------|----------------|--------------------------------------|----------------------|
| Name and Surname | Role | Fees (In Euro) | Bonus and other incentives (In Euro) | Total fees (In Euro) |
| Simone Cavalli | Chairman | 37,644 | - | 37,644 |
| Stefano Chirico | Statutory Auditor | 27,241 | - | 27,241 |
| Claudio Melegoni | Statutory Auditor | 25,428 | - | 25,428 |

Fees paid to executives with strategic responsibilities in the 2011 financial period amounted to Euro 484 thousand.

40. Legal disputes

There have not been for the parent company or its subsidiaries, litigations that may represent significant costs for the Group.

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

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

42. Commitments and risks

They include sureties, guarantees and third-party assets with the Group. For the financial periods as at 31 December 2011 and 2010, they are summarised as follows:

| (Euro in thousands) | 31 December | |
|------------------------------------|--------------|---------------|
| | 2011 | 2010 |
| Surities | 5,322 | 2,892 |
| Guarantees | - | 25,377 |
| Total commitments and risks | 5,322 | 28,269 |

Risks

The recorded value concerns sureties provided by Tesmec S.p.A. 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.

The guarantees of the 2010 financial period with regard to pledges given by Tesmec USA with reference to loans granted during 2010 and 2009 by Southwest Securities and represented by the value of trade receivables, closing inventories and tangible assets, were entirely cancelled as a result of the repayment of these loans.

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.

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

The following table shows the fees charged for the 2011 financial period for auditing services and for services other than audit rendered by the Independent Auditors.

| <i>(Euro in thousands)</i> | Independent Auditors that supplied the service | Receiver | Accrued amount |
|---|--|---------------------------------|----------------|
| | | | 2011 |
| Audit of the financial statements and consolidated financial statements | Reconta Ernst & Young S.p.A. | Tesmec S.p.A. Parent Company | 100 |
| | Reconta Ernst & Young S.p.A. network | Subsidiaries and joint ventures | 3 |
| Limited half-year auditing | Reconta Ernst & Young S.p.A. | Tesmec S.p.A. Parent Company | 20 |
| Certification services ⁽¹⁾ | Reconta Ernst & Young S.p.A. | Tesmec S.p.A. Parent Company | 5 |
| Other services ⁽²⁾ | Reconta Ernst & Young S.p.A. network | Subsidiaries | 23 |
| Total | | | 151 |

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

(2) The item refers to services carried out for the opening of the new bank, OOO Tesmec RUS.

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

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

- On 13 January 2012, Tesmec S.p.A. signed an investment agreement in Bertel S.p.A. Performing the investment contract, Tesmec S.p.A. entered in the share capital of Bertel through a reserved capital increase of a nominal amount of Euro 200 thousand by means of which it has come to hold 40% of the share capital of Bertel. The investment contract also includes the support of the development plan of Bertel and an option to purchase in favour of Tesmec of an additional 20% of the share capital of Bertel to be exercised according to established time frames in the period from 1 January 2014 to 31 March 2016.
Bertel S.p.A., with registered office in Piacenza, is a start-up operating in a market with a high technical profile such as that of streamlining systems of High-Voltage Power Networks and offers innovative technological solutions. The Company has a very high know-how in continuous development through the use of highly specialised young technicians;
- On 10 January 2012, the Shareholders' Meeting authorised the buy-back plan of treasury shares, the authorisation was granted for a period of 18 months; the Board of Directors, held on the same day, started the plan and the maximum quantity was initially fixed at 2% of the Share Capital. From the start of the buy-back plan to the date of this report a total of 100,000 shares (0.093% of the Share Capital) were purchased at an average price of Euro 0.364 (net of commissions) for a total equivalent value of Euro 36,442;
- On 12 March 2012, a contract for the lease of a business unit related to the marketing and design of the AMC2 Progetti e Prototipi S.r.l. company, operating in mechanical design, electrical engineering, and railway rolling stock production for the remuneration of the railway infrastructure was signed.

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 2011 financial period.
2. We also attest that:
 - 2.1 the consolidated financial statements as at 31 December 2011:
 - have been prepared in accordance with IFRS as endorsed by the European Union, as provided by 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 2012

Ambrogio Caccia Dominioni
Chief Executive Officer

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

INDEPENDENT AUDITOR'S REPORT

**Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 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 31 December 2011 and for the year then ended, 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 Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit 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 of the accounting principles applied and the reasonableness of the estimates made by Directors. 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 March 29, 2011.

3. In our opinion, the consolidated financial statements of the Tesmec Group at December 31 2011 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 Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure 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 of the information presented 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) 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 presented 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) in the Report on Corporate Governance and Ownership Structure, are consistent with the consolidated financial statements of the Tesmec Group at December 31, 2011.

Milan, March 28, 2012

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

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

Reconta Ernst & Young S.p.A.
Sede Legale: 20126 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Isotta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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Consob al progressivo n. 2 febbraio n. 126/11 del 30/11/1997

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FINANCIAL STATEMENTS OF TESMEC S.P.A.

Statement of financial position

| | | 31 December | |
|--|-------|--------------------|--------------------|
| (Euro in thousands) | Notes | 2011 | 2010 |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 5 | 6,592,501 | 6,121,527 |
| Property, plant and equipment | 6 | 30,476,314 | 9,460,299 |
| Equity investments in subsidiaries | | 14,342,503 | 14,335,974 |
| Equity investments in associates | 7 | 1,362,985 | 1,157,599 |
| Other equity investments | 8 | 2,288 | 2,288 |
| Financial receivables and other non-current financial assets | 9 | 8,795 | 3,211 |
| Derivative financial instruments | 19 | - | 130,653 |
| Deferred tax assets | 26 | 2,795,614 | 3,507,745 |
| TOTAL NON-CURRENT ASSETS | | 55,581,000 | 34,719,297 |
| CURRENT ASSETS | | | |
| Inventories | 9 | 28,423,245 | 28,047,017 |
| Trade receivables | 10 | 40,492,890 | 32,296,442 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>14,453,602</i> | <i>4,045,953</i> |
| Tax receivables | 11 | 54,920 | 55,882 |
| Other available-for-sale securities | 12 | 102,554 | 100,558 |
| Financial receivables and other current financial assets | 13 | 9,603,908 | 461,790 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>9,516,098</i> | <i>384,514</i> |
| Other current assets | 14 | 2,041,521 | 1,315,744 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>278,797</i> | <i>427,039</i> |
| Cash and cash equivalents | 15 | 13,360,831 | 7,429,484 |
| TOTAL CURRENT ASSETS | | 94,079,869 | 69,706,917 |
| TOTAL ASSETS | | 149,660,869 | 104,426,214 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 17 | 10,708,400 | 10,708,400 |
| Reserves / (deficit) | 17 | 18,726,042 | 15,172,720 |
| Net income (loss) for the period | 17 | 7,513,621 | 6,551,674 |
| TOTAL SHAREHOLDERS' EQUITY | | 36,948,063 | 32,432,794 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing financial payables | 18 | 49,515,884 | 19,669,097 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>18,946,133</i> | - |
| Derivative financial instruments | 19 | 323,429 | 33,514 |
| Employee benefit liability | 20 | 2,502,643 | 2,967,875 |
| Deferred tax liabilities | 26 | 685,765 | 303,899 |
| TOTAL NON-CURRENT LIABILITIES | | 53,027,721 | 22,974,385 |
| CURRENT LIABILITIES | | | |
| Interest-bearing financial payables (current portion) | 21 | 25,137,621 | 12,127,856 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>740,054</i> | - |
| Amounts due to subsidiaries | | - | 2,207,741 |
| Derivative financial instruments | 19 | - | 90,223 |
| Trade payables | 22 | 25,009,239 | 25,025,725 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>68,117</i> | <i>1,547,929</i> |
| Advances from customers | | 3,789,451 | 2,069,247 |
| Income taxes payable | 23 | 2,318,041 | 3,846,525 |
| Provisions for risks and charges | 24 | 607,121 | 778,420 |
| Other current liabilities | 25 | 2,823,612 | 2,873,298 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>17,346</i> | - |
| TOTAL CURRENT LIABILITIES | | 59,685,085 | 49,019,035 |
| TOTAL LIABILITIES | | 112,712,806 | 71,993,420 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 149,660,869 | 104,426,214 |

Income statement

| <i>(Euro in thousands)</i> | Notes | Financial period ended 31 December | |
|--|-------|------------------------------------|---------------------|
| | | 2011 | 2010 |
| Revenues from sales and services | 27 | 101,151,902 | 102,121,236 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>17,337,504</i> | <i>5,804,311</i> |
| Cost of raw materials and consumables | 28 | (48,743,187) | (48,479,430) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(1,003,982)</i> | <i>(5,628,260)</i> |
| Recurring costs for services | 29 | (19,243,313) | (19,553,756) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(456,721)</i> | <i>(281,484)</i> |
| Non-recurring costs for services | 29 | - | (3,442,507) |
| Payroll costs | 30 | (15,260,579) | (14,359,503) |
| Other operating (costs)/revenues, net | 31 | (1,776,587) | (3,826,072) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(743,076)</i> | <i>(1,145,810)</i> |
| Amortisation and depreciation | 32 | (4,936,299) | (4,419,426) |
| Development costs capitalised | 33 | 3,085,940 | 3,050,054 |
| Total operating costs | | (86,874,025) | (91,030,640) |
| Operating income | | 14,277,877 | 11,090,596 |
| Financial expenses | 34 | (4,658,284) | (3,024,217) |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>(1,134,319)</i> | <i>(249,875)</i> |
| Financial income | 35 | 2,497,822 | 1,752,714 |
| <i>of which with subsidiaries, related parties and joint ventures:</i> | | <i>299,997</i> | <i>43,201</i> |
| Pre-tax profits | | 12,117,415 | 9,819,093 |
| Income taxes | 26 | (4,603,794) | (3,267,419) |
| Net profit for the period | | 7,513,621 | 6,551,674 |

Comprehensive income statement

| <i>(Euro in thousands)</i> | Notes | Financial period ended 31 December | |
|---|-------|------------------------------------|-----------|
| | | 2011 | 2010 |
| NET PROFIT FOR THE PERIOD | | 7,513,621 | 6,551,674 |
| <i>Other components of comprehensive income</i> | | - | - |
| Total other income/(losses) net of taxation | | - | - |
| Total comprehensive income (loss) net of taxation | | 7,513,621 | 6,551,674 |

Cash flow statement

| | | Financial period ended 31 December | |
|--|-------|------------------------------------|--------------------|
| (Euro in thousands) | Notes | 2011 | 2010 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net profit for the period | | 7,513,621 | 6,551,674 |
| <i>Adjustments to reconcile net income for the period to the cash flows generated by (used in) operating activities:</i> | | | |
| Amortisation and depreciation | 31 | 4,936,299 | 4,419,426 |
| Provisions for employee benefits | 19 | 80,000 | 168,000 |
| Provisions for risks and charges / inventory obsolescence / doubtful accounts | | 407,121 | 213,420 |
| Employee benefit payments | 19 | (545,232) | (410,682) |
| Payments of provisions for risks and charges | | (178,420) | |
| Net change in deferred tax assets and liabilities | 25 | 1,093,997 | (1,554,264) |
| Change in fair value of financial instruments | 18 | 330,345 | (218,916) |
| <i>Change in current assets and liabilities:</i> | | | |
| Trade receivables | 10 | (6,876,244) | (6,528,811) |
| Inventories | 9 | (376,228) | (2,905,755) |
| Trade payables | 21 | (16,486) | 7,274,634 |
| Other current assets and liabilities | | (2,302,985) | 5,830,047 |
| NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES (A) | | 4,065,788 | 12,838,773 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Capital expenditures in property, plant and equipment | 6 | (1,261,845) | (1,281,670) |
| Investments in intangible assets | 5 | (3,480,101) | (3,856,522) |
| Investments / (disposal) of financial assets | | (9,361,612) | (2,482,916) |
| Proceeds from sale of property, plant and equipment and intangible assets | 5-6 | 630,658 | 435,000 |
| NET CASH FLOW (USED IN) INVESTING ACTIVITIES (B) | | (13,472,900) | (7,186,108) |
| NET CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Long-term loans received | 17 | 19,427,115 | 15,659,424 |
| Repayment of long-term loans | 17 | (7,521,284) | (4,115,000) |
| Net change in short-term financial debt | 17 | 6,430,980 | (18,551,422) |
| Other changes | | | |
| Dividend distribution | 16 | (2,998,352) | (2,581,644) |
| Capital injection for share capital increase | 16 | | 10,011,501 |
| NET CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES (C) | | 15,338,459 | 422,859 |
| TOTAL CASH FLOW FOR THE PERIOD (D=A+B+C) | | 5,931,347 | 6,075,524 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (E) | | | |
| - | | | |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F) | 15 | 7,429,484 | 1,353,960 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F) | | 13,360,831 | 7,429,484 |
| Additional information: | | | |
| Interest paid | | 3,312,044 | 163,038 |
| Income tax paid | | 3,562,541 | 1,252,749 |

Statement of changes in shareholders' equity

| | Share capital | Legal reserve | Share premium reserve | Statutory reserve | Other reserves | Net income for the period | Total shareholders' equity |
|---|-------------------|------------------|-----------------------|-------------------|------------------|---------------------------|----------------------------|
| <i>(Euro in thousands)</i> | | | | | | | |
| Balance as at 1 January 2010 | 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 |
| Increase in Share capital and share premium reserve | 1,650,000 | - | 8,361,501 | - | - | - | 10,011,501 |
| Other income (loss) | - | - | - | - | 2,489,988 | (2,489,988) | - |
| 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 |
| | | | | | | | - |
| Net income for the period | - | - | - | - | - | 7,513,621 | 7,513,621 |
| Allocation of net income for the period | - | 327,584 | - | - | 3,225,738 | (3,553,322) | - |
| Dividend distribution | - | - | - | - | - | (2,998,352) | (2,998,352) |
| Other changes | - | - | - | - | - | - | - |
| Balance as at 31 December 2011 | 10,708,400 | 1,126,492 | 10,915,101 | - | 6,684,449 | 7,513,621 | 36,948,063 |

Explanatory Notes

Accounting policies adopted in preparing the financial statements as at 31 December 2011

1. Company information

The Tesmec S.p.A. parent company (hereinafter "Parent Company", "Tescmec" or "Company") is a legal entity organised in accordance with the legal system of the Italian Republic. The ordinary shares of Tesmec are listed on the MTA STAR Segment of the Milan Stock Exchange as from 1 July 2010. The registered office of the Company is in Milan in Piazza S. Ambrogio no. 16.

The publication of Tesmec's financial statements for the period ended 31 December 2011 was authorised by means of the resolution of the Board of Directors on 14 March 2012.

2. Reporting standards

The financial statements of Tesmec S.p.A. as at 31 December 2011 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 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 2011 were applied in the same way also to all the periods of comparison.

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 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. There are no assets with indefinite lives in the financial statements of Tesmec S.p.A.

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 amortisation or loss. The amortisation of the asset starts when the development is complete and the asset is available for use. It is amortised with reference to the period in which the connected project is expected to generate revenues for the Company, estimated on average over five years. If the projects to which such assets refer are abandoned or the related machines are no longer included in the catalogue, specific impairment indicators are recognised, and therefore the asset is tested for impairment and written down for any impairment loss recognised as previously described for intangible assets with definite lives.

Rights and trademarks

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 machines 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 machinery | 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 amortisation, depreciation and write-downs. These impairment losses are reversed if the reasons that generated them no longer exist.

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

Leases

Contracts with the Company as lessee

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 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 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 amortisation, if no impairment had been recognised in previous years. Each reversal of impairment loss is recognised as an income in the income statement; after recognising a reversal of impairment loss, the amortisation rate of the asset is adjusted in future periods, in order to distribute the changed book value, net of any residual value, on a straight-line basis over the remaining useful life.

Equity investments in subsidiaries, associates and in joint ventures

Equity investments in subsidiaries, associates and companies subject to joint control (not classified as held for sale) are recorded in accordance with the method of cost, converted in Euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in a currency other than Euro, in accordance with IAS 27. The initial cost is equal to the costs incurred for the purchase or constitution or it is defined by experts in case of acquisitions through contributions.

When there is an indication that the equity investment may have suffered an impairment, its recoverable value is estimated, in accordance with the method specified in IAS 36 "Impairment of Assets", in order to determine the eventual loss to be posted to the income statement.

Financial assets and other non-current assets

These assets are measured according to the amortised cost approach by using the effective discount rate method net of any provision for impairment.

The amortised cost is calculated taking into consideration any discount or purchase premium and includes the commissions that are part and parcel of the effective interest rate and of the transaction costs.

Receivables falling due after one year, interest bearing or paying interests lower than the market, are discounted by using interest rates in line with market references.

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 does not fall within the normal commercial terms and do not bear interests, a detailed discounting process is applied based on assumptions and estimates.

The Company sells a portion of its trade receivables through factoring without recourse. Receivables assigned following factoring operations can be written off from the assets of the balance sheet only if the risks and 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 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 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 is a reasonable certainty that the company will meet all the conditions for receiving the contributions and that the contributions will be received. When the contributions are related to cost components, they are recognised as revenues, but are allocated systematically across the financial periods in order to be proportionate to the costs that they intend to compensate. If a contribution is related to an asset, the asset and the contribution are recognised for their nominal values and they are gradually discharged to the income statement, on a straight line basis, along the expected useful life of the asset of reference.

If the Company receives a non-monetary contribution, the asset and contribution are recognised at their nominal value and discharged to the income statement, on a straight line basis, along the expected useful life of the asset of reference. In case of loans or similar forms of assistance supplied by government entities or similar institutions that have an interest rate lower than the current market rate, the effect related to the favourable interest rate is considered as an additional government grant.

Financial instruments

The financial instruments are initially recognised at fair value and, after initial recognition, measured in relation to the classification, as required by IAS 39.

For financial assets, this treatment is differentiated among the following categories:

- Financial assets at fair value through profit or loss
- Investments held to maturity
- Loans and receivables
- Available-for-sale financial assets

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

- Financial liabilities at fair value through profit or loss

- Liabilities at amortised cost.

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

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

Derivative financial instruments

Derivative financial instruments are used solely with the intent to hedge financial risks relating to exchange-rate changes on commercial transactions in foreign currency.

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. With reference to the sales to the Joint ventures, if the risks and benefits related to the ownership of the asset are transferred to them, the revenue is recorded in the income statement.

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 taxes

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 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 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.

2.3 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 2011:

IAS 24 - Related Party Transactions (revised)

IAS 32 - Financial Instruments: Presentation (revised).

IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (revised)

IFRS 1 - First-time Adoption of the IFRS: exemptions limited to the comparative information established by IFRS 7 in the case of first-time adoption

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Improvements to the IFRS (May 2010)

The adoption of standards and interpretations is described below:

IAS 24 Related Party Disclosures (revised)

The IASB issued an amendment to IAS 24 that clarifies the definition of related party. The new definition emphasises the symmetry in identifying related parties and more clearly defines the circumstances in which persons and strategic executives must be considered related parties. Moreover, the amendment simplifies the disclosure requirements concerning related parties where there are public bodies. There are no significant impacts on the disclosures provided by the Company as a result of the application of the above standard.

IAS 32 Financial Instruments: Presentation (revised).

The amendment changes the definition of financial liabilities for the purpose of classification of rights issues – such as options and warrants – in foreign currency **other than the issuer's functional currency**. Previously, these rights issues were recognised as derivative financial liabilities. Now, if certain conditions are met, these rights issues can be classified as equity instruments regardless of the currency in which the exercise price is denominated. This amendment had no impact on the financial position or on the performance of the Company since it does not have this type of instruments.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (revised)

This amendment removes an unintentional consequence which arises when an entity is subject to minimum funding requirements and arranges payment in advance to meet such requirements. Benefits deriving from payments in advance can be recognised as an asset. The Company is not subject to minimum contribution requirements in Europe. This amendment therefore had no impact on the financial position or on the performance of the Company.

IFRS 1 revised - First-time Adoption of the IFRS (revised)

This amendment exempts from providing - in the first-time adoption of IFRS - the comparative figures of the additional disclosures required by IFRS 7 relating to the measurement of fair value and liquidity risk. There are no impacts on the financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation provides guidance on how to account for the extinction of a financial liability with equity instruments (debt for equity swap), i.e. when an entity renegotiates the terms of a debt with its own lender, which accepts to receive shares of the entity or other equity instruments to extinguish - totally or partially - the debt itself.

The interpretation explains that:

- the shares issued are part of the consideration paid to extinguish the financial liability;
- the shares issued are measured at fair value. If the fair value cannot be reliably determined, the value of the shares issued must reflect the fair value of the extinguished liability;
- the difference between the book value of the financial liability being extinguished and the initial value of the shares issued must be recorded by the entity in the income statement of the financial year.

There are no impacts on the financial statements as a result of the application of this interpretation.

Improvements to the IFRS

In May 2010, IASB issued a third series of improvements to the standards, mainly with a view to eliminating inconsistencies and clarifying terminology. The adoption of the following amendments had no impact on the financial position and on the performance of the Company.

- IFRS 3 Business Combinations: the measurement options for non-controlling interests (NCI) have been amended. Only components of non-controlling interests representing an effective interest that guarantees holders a proportionate interests in the assets of company in the event of winding-up can be measured at fair value or, alternatively, in relation to the proportionate share of identifiable net assets of the acquired company. All other components must be measured at fair value at the date of acquisition (see Note 5). The transitional rules for contingent amounts deriving from business combinations and the stock option plans acquired or voluntarily replaced following business combinations were also amended.
- IFRS 7 Financial Instruments - Disclosures: the amendment is aimed at clarifying the disclosure to be published by class of financial assets; in particular, some changes and additions are introduced on the information relating to credit risk;
- IAS 1 Presentation of Financial Statements: this amendment clarifies that an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.
- IAS 34 - Interim financial Reporting: specifies the disclosures required by IFRS7 "Financial Instruments: Disclosures" and their applicability to the Interim Financial Statements
- IAS 27 - Consolidated and Separate Financial Statements: provides the details of transitional provisions for amendments to some standards resulting from the amendments introduced by IAS 27 (2008): i) IAS 21 Effects of Changes in Foreign Exchange Rates: accounting treatment of exchange differences accumulated in equity as a result of total or partial disposal of an investment in a foreign operation; ii) IAS 28 Investments in Associates/ IAS 31 - Interests in Joint Ventures: accounting treatment if the significant influence or joint control fails.
- IFRIC 13 - Customer Loyalty Programmes: this concerns the fair value of award credits (points).

International Accounting Standards and/or Interpretations issued but not yet in force and/or not approved.

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the new Standards or the Interpretations already issued but not yet in force or not yet approved by the European Union and therefore not applicable are indicated and briefly described below.

None of these Standards and Interpretations has been adopted by the group in advance.

- Amendment to IFRS 7 - *Financial Instruments: Disclosures - Transfer of financial assets*

These amendments aim to improve the set of financial statements in order to increase transparency and comparability with reference to transactions that cover the transfer of financial assets (e.g. securitisations), including the possible effects of the risks of the entity transferring the asset. These amendments were approved by the European Union in November 2011 (1205/2011 EC Regulation) and apply as from 1 January 2012. No impacts are expected on the financial statements of the Company.

- Amendment to IAS 12 - Income Taxes - Recovery of underlying assets

According to IAS 12, deferred tax assets or liabilities should be measured depending on whether the book value of its asset is recovered through use or sale. In case of assets measured at fair value based on IAS 40 "Investment Property", it may be difficult and subjective to evaluate whether the recovery will be through use or sale. These amendments provide a practical solution to the problem by assuming that the recovery of investment property will take place through sale. As a result, SIC 21 "Income Taxes – Recovery of revalued non-depreciable assets" is no longer applicable to investment property measured at fair value. The guidelines of SIC 21 still applicable are incorporated within the amended IAS 12 and therefore SIC 21 will be repealed.

These amendments, which are expected to come into force as from 1 January 2012, have not yet been approved by the European Union and are not applicable to the Company.

- Amendments to IFRS 1 – First-time Adoption of IFRS – Severe hyperinflation and replacement of fixed dates in the case of first-time adoption

The amendments introduced concern:

- guidelines for preparing the financial statements according to IFRS after a period in which the application of IFRS has been suspended because of hyperinflation;
- replacement of fixed dates in the case of first-time adoption of IFRS. The entities that adopt IFRS apply the derecognition requirements of financial assets and liabilities prospectively, i.e. they are no longer required to reconstruct transactions prior to the date of transition to IFRS and that led to the derecognition of financial assets and liabilities.

These amendments, effective as from 1 July 2011, have not yet been approved by the European Union and are not applicable to the Company.

- IFRS 11 – Joint Arrangements

The new standard, which replaces IAS 31 "Interests in Joint Ventures", distinguishes between two categories of joint arrangements that have different accounting treatments:

- joint operations: these are agreements that give the parties to the agreement that have joint control of the initiative, rights on individual assets and obligations for individual liabilities relating to the arrangement. In the presence of joint operations, assets and liabilities, costs and revenues of the arrangement must be recognised in accordance with the accounting policies;
- joint ventures: there is a joint venture when the parties, which have joint control of the initiative, have no rights/obligations on individual assets/liabilities relating to the arrangement, but only on net assets or net income of the initiative. In the presence of joint ventures, the consolidation using the equity method is compulsory, whereas the previous IAS 31 provided the option between proportionate consolidation and consolidation using the equity method.

This standard, which will become effective as from 1 January 2013, has not yet been approved by the European Union. To date, the impacts resulting from the introduction of the new standard in the financial period of the first application are being analysed.

- IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 includes and expands all requirements in terms of disclosure to be provided with respect to subsidiaries, associates, joint arrangements and other equity investments (the so-called structured entities). Many of the disclosures required by IFRS 12 were previously included in IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investments in Associates" and IAS 31 "Interests in Joint Ventures", while others are new.

This standard, which will become effective as from 1 January 2013, has not yet been approved by the European Union. Impacts in terms of disclosure on the financial statements resulting from the future application of this principle are being analysed.

- IFRS 13 – Fair Value Measurement

IFRS 13 includes the guidelines for fair value measurement and the disclosures to be provided. The standard does not extend the use of fair value, but provides its measurement and application methods if other standards allow or require its use.

This standard, which will come into force as from 1 January 2013, has not yet been approved by the European Union and no significant impacts are expected on the financial statements of the Company.

- Amendments to IAS 1 – Presentation of Financial Statements – presentation of other components posted to equity

The main amendments to IAS 1 concern a new method of presentation of other components posted to equity within the statement of comprehensive income: the other components posted to equity must be grouped among those that in the future may be recycled to the income statement and those for which there is no such possibility.

Examples of items recycled to the income statement are as follows: translation exchange-rate differences, fair value adjustment of cash flow hedge derivatives, fair value adjustment of investments available for sale. An example of items not recycled to the income statement is actuarial gains / losses related to defined benefit pension plans.

These amendments, which will become effective as from 1 July 2012, have not yet been approved by the European Union.

- IAS 19 - Employee Benefits

IASB issued several amendments to IAS 19. These range from radical changes such as the removal of the corridor approach and of the concept of returns expected from the assets of the plan, to simple clarifications and terminology. The amendments are effective for the financial years from 1 January 2013 or later. For what concerns the impacts on the consolidated financial statements, it is noted that the removal of the corridor approach will not result in impacts in that the Company does not make use of that option already today. The other impacts are being analysed.

- IAS 27 - Separate Financial Statements

Following the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to the recording of subsidiaries, companies subject to joint control and associates, in separate financial statements. The amendments become effective for the financial years from 1 January 2013 or later. The future application of such amendments will not impact on the consolidated financial statements.

- IAS 28 - Investments in Associates

Following the new IFRS 11 and IFRS 12, IAS 28 was renamed Investments in associates and joint ventures, and describes the application of the equity method to investments in companies subject to joint control, in addition to associates. The amendments are effective for the financial years from 1 January 2013 or later. The future application of such amendments will not impact on the consolidated financial statements.

- Amendment to IFRS 7 – Financial Instruments: Disclosures - offsetting of financial assets and financial liabilities

These amendments introduce the obligation to provide a wide disclosure in the notes in the presence of financial assets and liabilities offset by virtue of a legal right to offset (e.g. gross and net amounts, guarantees given and held). These amendments, which will become effective as from 1 January 2013, have not yet been approved by the European Union. No significant effects are expected on the financial statements of the Company following the future application of the above amendments.

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 2011 amounts to Euro 2,503 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 2011, capitalised development costs amounted to Euro 3,086 thousand.

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

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

3. Management of financial risks

Tesmec S.p.A. is exposed in varying degrees to financial risks related to the core business. In particular, the Company is exposed at the same time to the market risk (interest-rate risk and exchange-rate risk), liquidity risk and credit risk.

The management of financial risks (mainly interest-rate risks) is carried out by the Company on the basis of guidelines defined by the Board of Directors. The purpose is to guarantee a liability structure always in equilibrium with the structure of the balance sheet assets, in order to keep a very sound balance sheet structure.

Forms of financing most commonly used are represented by:

- interest bearing 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 2011, 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 13 million, with a negative equivalent value of around Euro 323 thousand.

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.

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 2012 financial period (compared to 2011) referable to the interest-rate risk are set below:

- potential change in financial expenses and differentials related to existing derivative instruments in the 2011 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 2012 financial period (compared to 2011, calculated with reference to the situation existing at the end of the 2010 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 2012 financial period (compared to 2011).

- 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 2011, 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 2012 financial period of around Euro 217 thousand, offset by an increase of around Euro 118 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 65 thousand, offset by a decrease of around Euro 36 thousand in the collected spread for the existing derivatives.

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 financial expenses accrued in the 2011 financial period of around Euro 151 thousand, offset by an increase of around Euro 54 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 46 thousand, offset by a decrease of around Euro 16 thousand in the collected spread for the existing derivatives.

| | Interest Rates | | | | | |
|---|------------------|--------------------------|-------------------------|------------------|--------------------------|-------------------------|
| | 31 December 2011 | | | 31 December 2010 | | |
| | 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 |
| <i>(Euro in thousands)</i> | | | | | | |
| Borrowings | (75,032)* | (217) | 65 | (34,005) | (151) | 46 |
| Total Loans | (75,032)* | (217) | 65 | (34,005) | (151) | 46 |
| | | | | | | |
| <i>(Euro in thousands)</i> | 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 | 13,027 | 118 | (36) | 9,400 | 54 | (16) |
| Total Derivative instruments | 13,027 | 118 | (36) | 9,400 | 54 | (16) |
| | | | | | | |
| Total | | (99) | 29 | | (97) | 30 |

^(*) The indicated residual debt is considered before amortised costs

| Fair value sensitivity of derivatives | | | | | | | | | | |
|---|---|--------------|-----------------|-----------------|-----------------------|-----------------------|----------------|----------------|----------------------|----------------------|
| (Euro in thousands) | Financial period ended 31 December 2011 | | | | | | | | | |
| | Notional value | Net FV | Net FV +100 bps | Net FV +100 bps | Impact on IS +100 bps | Impact on SE +100 bps | Net FV -30 bps | Net FV -30 bps | Impact on IS -30 bps | Impact on SE -30 bps |
| Derivative instruments hedging cash flows | 13,027 | (323) | 24 | 347 | - | 347 | (435) | (112) | - | (112) |
| Total | 13,027 | (323) | 24 | 347 | - | 347 | (435) | (112) | - | (112) |
| (Euro in thousands) | Financial period ended 31 December 2010 | | | | | | | | | |
| | Notional value | Net FV | Net FV +100 bps | Net FV +100 bps | Impact on IS +100 bps | Impact on SE +100 bps | Net FV -30 bps | Net FV -30 bps | Impact on IS -30 bps | Impact on SE -30 bps |
| Derivative instruments hedging cash flows | 9,400 | 7* | 268 | 261 | - | 261 | (86) | (93) | - | (93) |
| Total | 9,400 | 7* | 268 | 261 | - | 261 | (86) | (93) | - | (93) |

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

With reference to the situation as at 31 December 2011, 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 347 thousand, with an impact on the Income statement of the 2012 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 112 thousand, with an impact only on the Income statement of the 2012 financial period.

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 around 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.

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.

Trade receivables of Euro 40,493 thousand include Euro 28,062 thousand of receivables due within one year; the residual due by less than one month is Euro 1,098 thousand, whereas the remaining part expired more than a month ago.

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 2011 and to 2010 financial periods, with regard to financial instruments, by residual maturity, is set out below.

| 31 December 2011 | | | | | |
|------------------------------|--------------------|----------------|----------------|-----------------------|----------------|
| Maturity | Financial payables | | Trade payables | Financial instruments | Total |
| | Capital | Interest Rates | | | |
| (Euro in thousands) | a | b | c | d | a+b+c+d |
| Within 12 months | 25,230 | 2,864 | 25,009 | 45 | 53,148 |
| Between one and two years | 15,195 | 2,255 | - | 131 | 17,581 |
| Between two and three years | 5,772 | 1,758 | - | 103 | 7,633 |
| Between three and five years | 7,229 | 2,907 | - | 56 | 10,192 |
| Between five and seven years | 9,650 | 2,153 | - | (2) | 11,801 |
| After more than 7 years | 11,956 | 2,775 | - | - | 14,731 |
| Total | 75,032* | 14,712 | 25,009 | 333 | 115,086 |

^(*) The indicated residual debt is considered before amortised costs

| 31 December 2010 | | | | | |
|------------------------------|--------------------|----------------|----------------|-----------------------|---------------|
| Maturity | Financial payables | | Trade payables | Financial instruments | Total |
| | Capital | Interest Rates | | | |
| (Euro in thousands) | a | b | c | d | a+b+c+d |
| Within 12 months | 14,335 | 983 | 25,026 | (113) | 40,231 |
| 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 | 924 | 42 | - | 14 | 980 |
| Total | 34,005 | 4,437 | 25,026 | 12 | 63,480 |

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 2011 and 31 December 2010).

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 2012 financial period (compared to 2011) 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 2013 and 2012 financial periods (compared to 2011, calculated with reference to the situation existing at the end of the 2010 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 foreign currency (USD) 2011 | | | Sensitivity 2011 | |
|---|---|-----------------------|------------------|--|--|
| | Assets (USD/000) | Liabilities (USD/000) | Equity (USD/000) | Income statement EUR/USD exchange rate +5% | Income statement EUR/USD exchange rate -5% |
| Trade receivables | 28,374 | - | 28,374 | (1,096) | 1,096 |
| Trade payables | - | 287 | 287 | (11) | 11 |
| Total net exposure with regard to equity items | 28,374 | 287 | 28,661 | (1,107) | 1,107 |
| Derivative instruments | - | - | - | - | - |
| Total net exposure with regard to equity items | 28,374 | 287 | 28,661 | (1,107) | 1,107 |

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

4. Significant events occurred during the period

On 31 January 2011 Tesmec S.p.A. signed a new contract with Dream Immobiliare S.r.l. valid until 31 January 2025. The renewal of this contract implied an immediate rental cost saving for the Company compared to the annual amount paid in 2010 of Euro 245 thousand.

When signing the new Lease contract, Tesmec signed an option contract with Dream Immobiliare S.r.l. for purchase of the Lease 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 in which the Company exercises the option, valid until 31 December 2016).

Even if the operation does not legally qualify as an acquisition, in view of the fact that the Lease contract is covered by the cases in IAS 17 it is recorded as a financial lease in the financial statements with effect from this year. Therefore, this implied recognition of the value of the industrial complex - for the part occupied by the Company and subject 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 approximately Euro 22.5 million), with corresponding entry of the related discounted loan.

At the end of the year, this accounting treatment improved EBITDA by around Euro 1.8 million and had a positive effect on the net income of around Euro 200 thousand. IAS application results in an increase in net assets of Euro 19.9 million and a notional debt of Euro 19.7 million.

Illustrated below are the economic and financial effects deriving from the recording, in accordance with IAS 17, of the operation as at 31 December 2011:

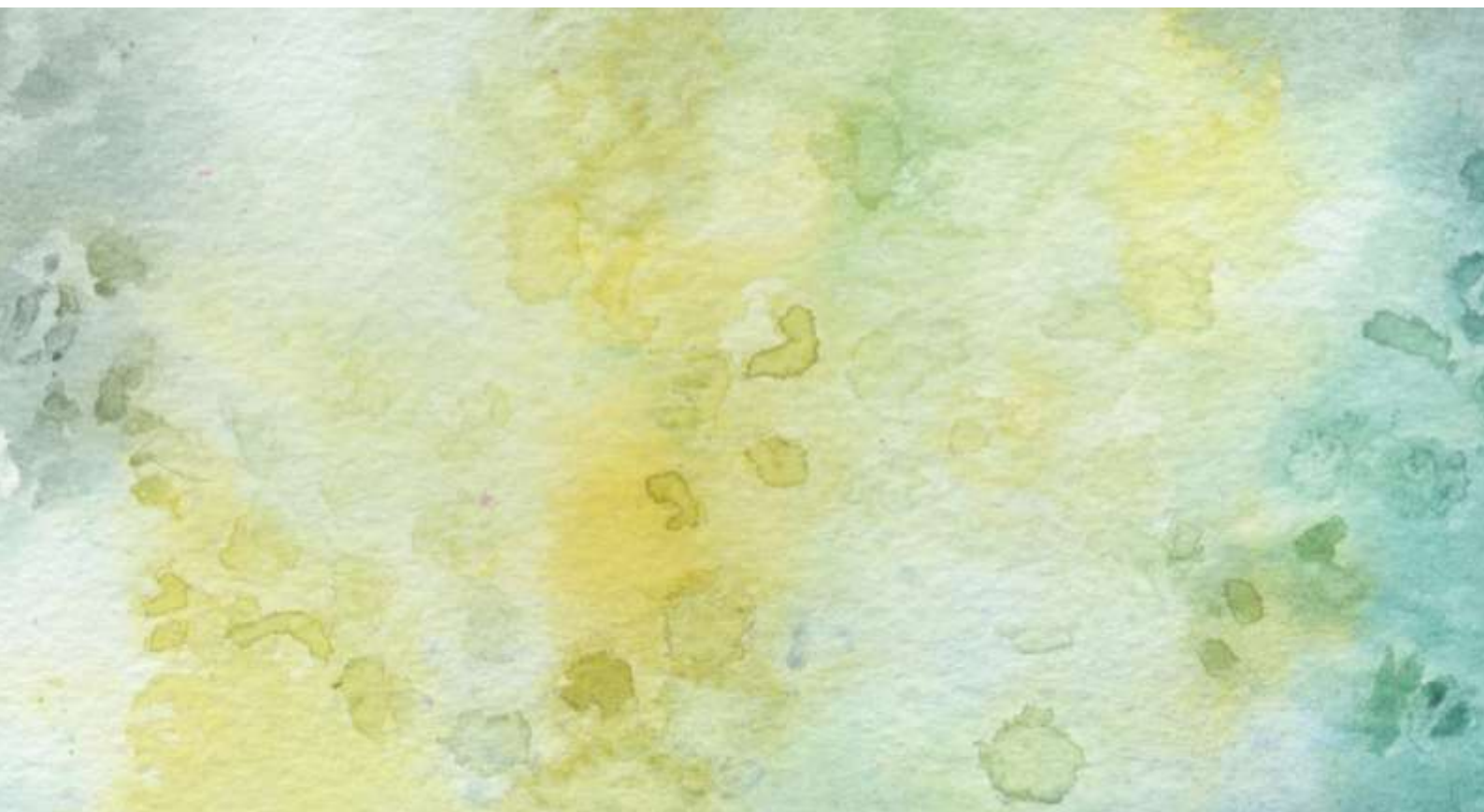
A) The effects on each item of the statement of financial position:

- *Property, plant and equipment* increase by Euro 21,788 thousand equal to the fair value of the Complex at the date of reference or the present value of the minimum lease payments payable of the Company, whichever lower. The share of the Industrial Complex is represented by the surface area covered in the Lease Contract between the Company and Dream Immobiliare S.r.l. (equivalent to about 68% of the total surface area of the Industrial Complex). Euro 4,016 thousand is related to Land and Euro 17,772 thousand to Buildings.

- The effect on *cash* of Euro 2,866 thousand represents for Euro 2,700 thousand the initial disbursement carried out by the Company as an advance payment/deposit to secure the right of option of takeover in the original contract of financial lease signed by Dream Immobiliare S.r.l. This financial disbursement has been classified, in proportion to the share of the Industrial Complex subject-matter of the lease contract between Tesmec S.p.A. and Dream Immobiliare S.r.l., as a decrease in the overall loan represented by the future payments payable, while the remaining part, not referable to the lease contract, was classified among the financial receivables. The remaining Euro 166 thousand relates to the instalment paid in January 2012;
- Total *financial payables* increase of Euro 19,686 thousand, corresponding to the loan. This value was prorated between the short-term portion of Euro 740 thousand (represented by the principal that will be repaid within 12 months of the date of reference on the basis of implementation of future payments) and the medium to long term portion of Euro 18,946 thousand (represented by the remaining discounted portion of future payments payable on the basis of the Lease Contract);
- the decrease in *income taxes payable* of Euro 62 thousand reflects the tax effect on the adjustments applied to the income statement.

B) The effects on each item of the income statement:

- *other net operating (costs)/revenues* increase of Euro 1,826 thousand and refer to the eleven lease instalments paid in the 2011 financial period;
- *amortisation and depreciation* decreased of Euro 524 thousand due to the depreciation charge calculated on the portion of the Industrial Complex property identified in a total of 40 years from its date of construction (2003) and represents the depreciation charge of eleven months. This charge was also calculated considering that 18% of the portion of the Industrial Complex is represented by lands not subject to depreciation.
- The portion recorded in *financial expenses* of Euro 1,103 thousand represents the financial component resulting from the loan repayment plan for the period of eleven months;
- the adjustments applied to the income statement give rise to a tax impact of Euro 62 thousand.



COMMENTS TO THE MAIN BUDGET ITEMS

Non-current assets

5. Intangible assets

The breakdown of *Intangible assets* as at 31 December 2011 and as at 31 December 2010 is indicated in the table below:

| | 31 December | | | | | |
|--|-----------------|-----------------|--------------|-----------------|----------------|--------------|
| | 2011 | | | 2010 | | |
| | Historical cost | Accum. amort. | Net value | Historical cost | Accum. amort. | Net value |
| <i>(Euro in thousands)</i> | | | | | | |
| Development costs | 15,126 | (9,014) | 6,112 | 11,692 | (6,209) | 5,483 |
| Rights and trademarks | 2,044 | (1,563) | 481 | 1,971 | (1,360) | 611 |
| Assets in progress and advance payments to suppliers | - | - | - | 27 | - | 27 |
| Total intangible assets | 17,170 | (10,577) | 6,593 | 13,690 | (7,569) | 6,121 |

The following table shows the changes in intangible assets for the period ended 31 December 2011:

| | 01/01/2011 | Increases due to purchases | Decreases | Reclassifications | Amortisation | 31/12/2011 |
|--|--------------|----------------------------|-----------|-------------------|----------------|--------------|
| <i>(Euro in thousands)</i> | | | | | | |
| Development costs | 5,483 | 3,408 | - | 27 | (2,806) | 6,112 |
| Rights and trademarks | 611 | 73 | - | - | (203) | 481 |
| Assets in progress and advance payments to suppliers | 27 | - | - | (27) | - | - |
| Total intangible assets | 6,121 | 3,481 | - | - | (3,009) | 6,593 |

As at 31 December 2011, intangible assets net of amortisation totalled Euro 6,593 thousand, up Euro 472 thousand on the previous year.

Increases for the period totalled Euro 3,481 thousand mainly consisting in development costs capitalised (Euro 3,408 thousand) related to the development of new products and equipment that are expected to generate positive cash flows in future financial periods.

Where signs of impairment and the result of impairment tests suggest 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 2010:

| | 01/01/2010 | Increases due to purchases | Decreases | Reclassifications | Amortisation | 31/12/2010 |
|--|--------------|----------------------------|-------------|-------------------|----------------|--------------|
| <i>(Euro in thousands)</i> | | | | | | |
| Development costs | 4,357 | 3,710 | - | - | (2,584) | 5,483 |
| Rights and trademarks | 673 | 146 | - | - | (208) | 611 |
| Assets in progress and advance payments to suppliers | 49 | - | (22) | - | - | 27 |
| Total intangible assets | 5,079 | 3,856 | (22) | - | (2,792) | 6,121 |

6. Property, plant and equipment

The breakdown of *Property, plant and equipment* as at 31 December 2011 and as at 31 December 2010 is indicated in the table below:

| | 31 December | | | | | |
|--|-----------------|----------------|---------------|-----------------|----------------|--------------|
| | 2011 | | | 2010 | | |
| | Historical cost | Accum. depr. | Net value | Historical cost | Accum. depr. | Net value |
| <i>(Euro in thousands)</i> | | | | | | |
| Land | 4,016 | - | 4,016 | - | - | - |
| Buildings | 18,296 | (524) | 17,772 | - | - | - |
| Plant and machinery | 8,448 | (3,713) | 4,735 | 7,882 | (2,943) | 4,939 |
| Equipment | 2,495 | (1,906) | 589 | 2,108 | (1,669) | 439 |
| Other assets | 4,640 | (1,565) | 3,075 | 5,436 | (1,394) | 4,042 |
| Assets in progress and advance payments to suppliers | 289 | - | 289 | 40 | - | 40 |
| Total property, plant and equipment | 38,184 | (7,708) | 30,476 | 15,466 | (6,006) | 9,460 |

Including leased property, plant and equipment:

| | 31 December | | | | | |
|--|-----------------|----------------|---------------|-----------------|--------------|--------------|
| | 2011 | | | 2010 | | |
| | Historical cost | Accum. depr. | Net value | Historical cost | Accum. depr. | Net value |
| <i>(Euro in thousands)</i> | | | | | | |
| Land | 4,016 | - | 4,016 | - | - | - |
| Buildings | 18,296 | (524) | 17,772 | - | - | - |
| Plant and machinery | 2,715 | (592) | 2,123 | 2,394 | (356) | 2,038 |
| Equipment | 56 | (56) | - | 56 | (56) | - |
| Other assets | - | - | - | - | - | - |
| Assets in progress and advance payments to suppliers | - | - | - | - | - | - |
| Total property, plant and equipment | 25,083 | (1,172) | 23,911 | 2,450 | (412) | 2,038 |

The following table shows the changes in property, plant and equipment for the period ended 31 December 2011:

| | 01/01/2011 | Increases due to purchases | Decreases | Reclassifications | Depreciation | 31/12/2011 |
|--|--------------|----------------------------|--------------|-------------------|----------------|---------------|
| <i>(Euro in thousands)</i> | | | | | | |
| Land | - | 4,016 | - | - | - | 4,016 |
| Buildings | - | 18,296 | - | - | (524) | 17,772 |
| Plant and machinery | 4,939 | 573 | (4) | - | (773) | 4,735 |
| Equipment | 439 | 391 | - | - | (241) | 589 |
| Other assets | 4,042 | 49 | (627) | - | (389) | 3,075 |
| Assets in progress and advance payments to suppliers | 40 | 249 | - | - | - | 289 |
| Total property, plant and equipment | 9,460 | 23,574 | (631) | - | (1,927) | 30,476 |

In 2011, the Tesmec Group invested in property, plant and equipment, net of disinvestments, an overall amount of Euro 22,943 thousand.

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

- *land and buildings* overall investment of Euro 22,312 thousand as a result of the effect of the New lease contract described in paragraph 4;
- *plant and equipment* overall investment of Euro 569 thousand mainly related to: (i) installation of two new painting systems in the factories of Grassobbio and Endine of Euro 160 thousand and Euro 146 thousand, respectively with lease contracts, (ii) adjustment to the regulations in force of the fume extraction plant at the premises of Grassobbio of Euro 137 thousand, (iii) modernisation of the production plant of Sirone of Euro 90 thousand;
- *equipment* increases of Euro 391 thousand, following the internationalisation choice of some phases of the production process that required the purchase of new equipment;
- *other assets* decreases by a net amount of Euro 578 thousand as a result of the sale of a trencher to a third-party customer;
- *property, plant and equipment in progress* increased of Euro 249 thousand related to the construction of a new layer machine to meet the growing demand for anti-twist rope in the stringing equipment market.

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

| | 01/01/2010 | Increases due to purchases | Decreases | Reclassifications | Depreciation | 31/12/2010 |
|--|---------------|----------------------------|--------------|-------------------|----------------|--------------|
| <i>(Euro in thousands)</i> | | | | | | |
| Land | - | - | - | - | - | - |
| Buildings | - | - | - | - | - | - |
| Plant and machinery | 4,785 | 1,002 | - | (139) | (709) | 4,939 |
| Equipment | 299 | 213 | - | 139 | (212) | 439 |
| Other assets | 5,135 | 27 | (413) | - | (707) | 4,042 |
| Assets in progress and advance payments to suppliers | - | 40 | - | - | - | 40 |
| Total property, plant and equipment | 10,219 | 1,282 | (413) | - | (1,628) | 9,460 |

7. Equity investments in subsidiaries, associates and joint ventures.

The breakdown of *Equity investments in subsidiaries, associates and joint ventures* as at 31 December 2011 and 2010 is indicated in the table below:

| | 31 December | |
|---|---------------|---------------|
| <i>(Euro in thousands)</i> | 2011 | 2010 |
| Subsidiaries: | | |
| Tesmec USA, Inc. | 13,807 | 13,807 |
| Tesmec Balkani EAD | 199 | 203 |
| Tesmec Service SpA | 326 | 326 |
| Tesmec SA | - | - |
| OOO Tesmec RUS | 11 | - |
| Total equity investments in subsidiaries | 14,343 | 14,336 |

During the financial period, the Company carried out the following operations:

- In November 2011, the set-up of a new company operating in the Stringing equipment segment, OOO Tesmec RUS, was finalised in Russia, with a view to increasing its share, also in terms of secondary market volumes, on a market

until now not served directly. This company is 100% owned by Tesmec S.p.A. and recorded in the financial statements of Euro 11 thousand equal to the subscribed and paid-up share capital;

- on 31 December 2011, the Parent Company converted a sum amounting to Euro 168 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 value of the investment was written down because this payment is closely related to cover the losses of the subsidiary. As a result of the above write-down, the value of the investment is greater than the portion attributable to the shareholders' equity of the subsidiary. This greater value is justified by the activities undertaken in Tesmec Balkani that will become strategically important with the opening of large infrastructure projects planned for the Balkan area.

The following table shows the main budget items of subsidiaries:

| (Euro in thousands) | 31 December | | | | | | |
|----------------------|-------------|----------|------------|--------|-------------|----------------------|------------|
| | 2011 | | | | | | |
| | % held | Revenues | Net Income | Assets | Liabilities | Shareholders' equity | Book value |
| Subsidiaries: | | | | | | | |
| Tesmec USA, Inc. | 100.00% | 12,714 | (247) | 30,261 | 13,704 | 16,557 | 13,807 |
| Tesmec Balkani EAD | 100.00% | 25 | (163) | 193 | 162 | 31 | 199 |
| Tesmec Service SpA | 100.00% | 1,159 | 171 | 1,048 | 402 | 646 | 326 |
| Tesmec SA | 100.00% | 107 | (33) | 309 | 340 | (31) | - |
| OOO Tesmec RUS | 100.00% | - | (7) | 11 | 7 | 4 | 11 |

The breakdown of equity investments in associates and joint ventures as at 31 December 2011 and 2010 is indicated in the table below:

| (Euro in thousands) | 31 December | |
|---|--------------|--------------|
| | 2011 | 2010 |
| Associated companies: | | |
| Locavert SA | 52 | 52 |
| Zao Sibtechmash | - | 123 |
| Consorzio Lombartech | 2 | 15 |
| East Trenchers | 7 | 7 |
| Subtotal | 61 | 197 |
| Joint ventures: | | |
| Consorzio TR Scarl | - | 5 |
| Condux Tesmec Inc | 956 | 956 |
| Tesmec Peninsula | 346 | - |
| Subtotal | 1,302 | 961 |
| Total equity investments in associates | 1,363 | 1,158 |

On 23 December 2011, Tesmec S.p.A. sold a portion of the investment in TR Società Consortile in liquidation, at the price of Euro 1 (booked at the value of Euro 5,000) to a related party.

A Joint Venture, Tesmec Peninsula WLL, was set up in Qatar in March 2011 together with the local shareholder represented by the Mustafawi family, owner of the QBC (Qatar Building Company) for over 30 years primary planning and construction company and market leader in Saudi Arabia and Qatar. The Joint Venture was set up through TME (Tesmec Middle East), company belonging to the QBC Group and already exclusive concessionaire of the trenchers of the Tesmec Group on the Qatar market.

The value of the investments in the Zao Sibtechmash and Consorzio Lombartech companies was aligned to the actual value of the corresponding shareholders' equity

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

| (Euro in thousands) | 31 December | | | | | | |
|------------------------------|-------------|----------|------------|--------|-------------|----------------------|------------|
| | 2011 | | | | | | |
| | % held | Revenues | Net income | Assets | Liabilities | Shareholders' equity | Book value |
| Associated companies: | | | | | | | |
| Locavert SA | 38.63% | 435 | 62 | 502 | 237 | 265 | 52 |
| Zao Sibtechmash | 20.00% | - | (2) | 4 | 11 | (7) | - |
| Consorzio Lombartech | 19.23% | 10 | 2 | 14 | 12 | 2 | 2 |
| East Trencher Srl | 24.00% | 31 | (0) | 42 | 32 | 10 | 7 |
| Joint ventures: | | | | | | | |
| Condux Tesmec Inc. | 50.00% | 2,536 | 24 | 2,362 | 1,260 | 1,102 | 956 |
| Tesmec Peninsula | 49.00% | 668 | (98) | 7,429 | 7,154 | 275 | 346 |

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).

Current assets

9. Inventories

The following table sets forth the breakdown of *Inventories* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|----------------------------------|---------------|---------------|
| | 2011 | 2010 |
| Raw materials and consumables | 17,626 | 18,800 |
| Work in progress | 4,020 | 4,523 |
| Finished goods and merchandise | 6,674 | 4,488 |
| Advances to suppliers for assets | 103 | 236 |
| Total Inventories | 28,423 | 28,047 |

The measurement bases of inventories remained unchanged compared to the prior financial period. Inventories increased by 1.3% of Euro 376 thousand due to the supply of raw materials necessary for generating the expected revenues in the first quarter of 2012.

The changes in the provisions for inventory obsolescence for financial periods ended 31 December 2011 and 2010 are indicated in the table below:

| (Euro in thousands) | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| 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 2011 and 2010:

| (Euro in thousands) | 31 December | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Trade receivables from third-party customers | 26,039 | 28,439 |
| Trade receivables from subsidiaries | 961 | 878 |
| Trade receivables from associates, related parties and joint ventures | 11,794 | 1,899 |
| Trade receivables from related parties | 1,699 | 1,080 |
| Total trade receivables | 40,493 | 32,296 |

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

Trade receivables from customers as at 31 December 2011 amounted to Euro 40,493 thousand up by Euro 8,197 thousand compared to the 2010 financial period. The increase in trade receivables from joint ventures is due to the sales to Tesmec Peninsula WLL for which, on 31 December 2011, Tesmec S.p.A. has not yet received the payment expected in the first quarter of 2012.

Trade receivables include Euro 28,062 thousand of receivables due within one year; the residual due by less than one month is Euro 1,098 thousand, whereas the remaining part expired more than a month ago.

The adjustment of receivables from foreign customers at the year-end exchange-rate implied the recognition of an unrealised foreign exchange loss of Euro 992 thousand as at 31 December 2011.

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 2011 and 2010 are indicated in the table below:

| (Euro in thousands) | Financial period ended 31 December | |
|---|------------------------------------|------------|
| | 2011 | 2010 |
| Value as at 1 January | 363 | 367 |
| Provisions | 400 | - |
| Uses | (14) | (4) |
| Total provisions for doubtful accounts | 749 | 363 |

Uses of the 2011 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 2011 and 2010:

| (Euro in thousands) | 31 December | |
|------------------------------|-------------|-----------|
| | 2011 | 2010 |
| IRES receivables | 4 | - |
| Other tax receivables | 51 | 56 |
| Total tax receivables | 55 | 56 |

Tax receivables as at 31 December 2011 mainly 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 and to receivables for withholding tax incurred in the year 2011, amounting to Euro 4 thousand.

12. Other available-for-sale securities

The following table sets forth the breakdown of *Other available-for-sale securities* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|-------------|------------|
| | 2011 | 2010 |
| Shares of Banco Popolare Italiano | 8 | 9 |
| Shares of Banca Popolare di Vicenza | 95 | 92 |
| Total other available-for-sale securities | 103 | 101 |

Other available-for-sale securities as at 31 December 2011 consists of 8,054 shares of Banco Popolare Italiano for a unit value of Euro 1 and of 1,512 shares of Banca Popolare di Vicenza for a unit value of Euro 61.627, these shares were purchased on 30 December 2010.

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 2011 and as at 31 December 2010:

| (Euro in thousands) | 31 December | |
|---|--------------|------------|
| | 2011 | 2010 |
| Financial receivables due from subsidiaries | 8,359 | 177 |
| Financial receivables due from associates, related parties and joint ventures | 86 | - |
| Financial receivables due from affiliated companies | 1,071 | 207 |
| Guarantee deposits | 14 | 16 |
| Other current financial assets | 74 | 62 |
| Total financial receivables and other current financial assets | 9,604 | 462 |

The increase in *financial receivables and other current financial assets* (Euro 9,142 thousand) is due to the following factors: (i) for Euro 864 thousand to the portion not referable to the lease contract between Tesmec S.p.A. and Dream Immobiliare S.r.l. of the initial disbursement carried out by the company of Euro 2,700 thousand as an advance payment/deposit to secure the right of option of takeover in the original contract of financial lease signed by Dream Immobiliare S.r.l. as described in paragraph 4 of the explanatory notes, (ii) for Euro 8,182 thousand to financial receivables granted mainly to the Tesmec USA subsidiary, which at the same time repaid all the financial payables to third-party financial institutes. This loan agreement specifies the repayment within one year of the signing at the interest rate equivalent to the 6-month Euribor rate + spread of 2%.

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

14. Other current assets

The following table sets forth the breakdown of *other current assets* as at 31 December 2011 and as at 31 December 2010:

| (Euro in thousands) | 31 December | |
|---|--------------|--------------|
| | 2011 | 2010 |
| Accrued income | 6 | 2 |
| Prepaid expenses | 197 | 559 |
| Financial receivables due from affiliated companies | 279 | - |
| VAT credit | 1,418 | 231 |
| Other receivables | 82 | 446 |
| Advance to suppliers for services | 60 | 78 |
| Total other current assets | 2,042 | 1,316 |

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

Prepaid expenses amounted to Euro 197 thousand as at 31 December 2011 whereas they amounted to Euro 559 thousand as at 31 December 2010 and they mainly refer to advance payments of insurance premiums and operating rentals.

With regard to *financial receivables from related parties*, refer to note 35.

VAT credit, which amounted to Euro 1,418 thousand as at 31 December 2011, increased by Euro 1,187 thousand compared to 31 December 2010.

15. Cash and cash equivalents

The following table sets forth the breakdown of the item as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|---------------|--------------|
| | 2011 | 2010 |
| Bank and post office deposits | 13,354 | 7,421 |
| Cash on hand | 3 | 8 |
| Other cash | 4 | - |
| Total cash and cash equivalents | 13,361 | 7,429 |

Cash and cash equivalents are invested in short-term bank deposits and they are remunerated at a floating rate related to the Euribor trend. The balance as at 31 December amounts to Euro 13,361 thousand and increased of Euro 5,932 thousand thanks to the positive cash flows achieved at year end.

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

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

The following table sets forth the breakdown of *Other reserves* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|--------------|--------------|
| | 2011 | 2010 |
| Revaluation reserve | 86 | 86 |
| Extraordinary reserve | 9,728 | 6,502 |
| Retained earnings/(losses brought forward) | 2,489 | 2,490 |
| Bills charged directly to equity on operations with entities under common control | - (5,619) | - (5,619) |
| Total other reserves | 6,684 | 3,459 |

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 2011, *extraordinary reserves* increased by a total of Euro 3,225 thousand as a result of the decision for the allocation of the 2010 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 (Euro/000) | Possibility of usage | Amount available | Summary of uses in the last 3 periods | |
|--|----------------------|-------------------------|---------------------|--|----------------------|
| | | | | to cover losses | for other reasons |
| Share capital | 10,708 | B | | | |
| Equity's reserves | | | | | |
| Share premium reserve | 10,915 | A, B, C (*) | 10,915 | - | - |
| Earnings reserves | | | | | |
| Legal reserve | 1,127 | B | | | |
| Revaluation reserve | 86 | A, B, C | 86 | - | - |
| Extraordinary reserve | 9,728 | A, B, C | 9,728 | - | - |
| Reserve for First Time Adoption | (5,619) | | | | |
| Retained earnings/(losses brought forward) | 2,489 | B | | | |
| Net income for the period | 7,514 | | | | |
| Total | 36,948 | | 20,729 | - | - |

(*) As stated in the Italian Civil Code, Article 2431, the whole amount is distributable only under the condition that the legal reserve should have reached the limit indicated in 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 includes 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 2011 and as at 31 December 2010, with separate disclosure of the current portion:

| (Euro in thousands) | 31 December | | | |
|--|-------------|-----------------------------|-------|-----------------------------|
| | 2011 | of which current portion | 2010 | of which current portion |
| Efibanca - loan reformulated on 27 January 2011, value Euro 3.75 million with maturity date 26 July 2012; floating interest rate equivalent to 3-month Euribor rate + spread of 1.50%. | 1,875 | 1,875 | 3,750 | 1,875 |
| <i>Eracle Finance</i> - non-preferential unsecured loan drawn down on 13 July 2006 from JP Morgan Chase Bank and transferred on 2 August 2006 to <i>Eracle Finance</i> ; original value Euro 4 million; repayable in a single instalment on 31 July 2013; fixed interest rate of 7.61% + floating interest rate <0.0% and 0.1%> equivalent to 3-month Euribor rate + spread of 1.10%. | 3,965 | - | 3,930 | - |
| Banca Popolare di Lodi - unsecured 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; floating interest rate equivalent to 3-month Euribor rate + spread of 1.50% | 500 | 400 | 900 | 400 |
| 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; floating interest rate equivalent to 3-month Euribor rate + spread of 1.70%. | 1,106 | 392 | 1,487 | 381 |
| Banca Popolare dell'Emilia Romagna - unsecured loan 70% backed by Sace guarantee; original value Euro 2 million; drawn down on 20 October 2009 with maturity date 31 December 2014; fixed annual interest rate of 4.2% | 1,250 | 399 | 1,633 | 383 |
| Banca Nazionale del Lavoro - loan at floating interest rate with a 2-year pre-amortisation; original value Euro 6 million; drawn down on 1 July 2010 with maturity date 31 May 2018; floating interest rate equivalent to 6-month Euribor rate + spread of 2.25% | 6,000 | 462 | 6,000 | - |
| Banca Popolare di Milano - loan at floating interest rate; original value Euro 2 million; drawn down on 16 June 2010 with maturity date 30 June 2011; floating interest rate equivalent to 3-month Euribor rate + spread of 2% | - | - | 1,007 | 1,007 |
| BNL-BNP Paribas Group - loan in pool; original value Euro 21 million, drawn down on 11 March 2011 Euro 8 million with maturity date 4 March 2016, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) and on 4 and 5 August 2011 Euro 4 million and on 9 November 2011 Euro 2 million, maturity date 4 March 2013, floating interest rate equivalent to 6-month Euribor rate + spread of 2% (+/- 0.25) with option to extend repayment in 54 months (in 9 deferred half-yearly instalments) last instalment expiring on 4 September 2017, 6-month Euribor rate + spread of 1.90% (+/- 0.25). | 13,408 | 833 | - | - |
| Banca Popolare dell'Emilia Romagna - Bullet unsecured loan 70% backed by Sace guarantee; original value Euro 2.5 million; drawn down on 6 July 2011 with maturity date 31 December 2012; floating interest rate equivalent to 3-month Euribor rate + spread of 1.65%. | 2,488 | 2,488 | - | - |

| | | | | |
|---|---------------|--------------|---------------|--------------|
| Credito Valtellinese - unsecured loan of Euro 2 million 50% backed by Sace guarantee, drawn down on 23 December 2011 with maturity date 31 December 2014, floating interest rate equivalent to 3-month Euribor rate + spread of 3%. | 1,988 | 633 | - | - |
| Total Interest-bearing financial payables | 32,580 | 7,482 | 18,707 | 4,046 |
| Less current portion | (7,482) | | (4,046) | |
| Non-current portion of interest-bearing financial payables | 25,098 | | 14,661 | |
| Loan due to Simest | 3,696 | | 3,696 | |
| Total medium/long term loans | 28,794 | | 18,357 | |
| Non-current portion of finance leases | 21,961 | 1,239 | 1,614 | 302 |
| Less current portion | (1,239) | | (302) | |
| Non-current portion of finance leases, net | 20,722 | | 1,312 | |
| Total current portion | | 8,721 | | 4,348 |
| Interest-bearing financial payables | 49,516 | | 19,669 | |

Some loan contracts (Efibanca, ICCREA-BCC, BNL) contain certain financial covenant clauses. In particular they require that certain parameters, calculated on the basis of the separate financial statements of TESMEC, have to be met; they are verified on a semi-annual and annual basis.

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

- Net financial 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, with the exception of a financial parameter related to the Efibanca loan agreement. With regard to this point, on the one hand, the covenants relevant to Efibanca were calculated by including in the financial position also the impacts related to the previously described new lease contract recorded in accordance with IAS 17 and on the other the entire amount of the loan is classified as a short term because, in accordance with the original repayment plan, the remaining portion of Euro 1,875 will be fully repaid during the 2012 financial period.

On 4 March 2011, Tesmec S.p.A. 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*; this agreement partially aims at refinancing a loan granted to the Tesmec USA subsidiary with the aim of paying off all the existing payable to Southwest Securities within the first half of 2011 (of Euro 4.6 million). During the year, a total of Euro 14 million repayable in half-yearly instalments until March 2016 was disbursed.

During financial period, the Company raised two new loans with important banks: a loan of Euro 2,500 thousand with Banca Popolare dell'Emilia Romagna with maturity date on 31 December 2012 and another loan of Euro 2,000 thousand with Credito Valtellinese with maturity date on 31 December 2014.

The New lease contract described in paragraph 5, recorded in accordance with IAS 17, led to the entry of notional interest-bearing financial loans and borrowings in *non-current portion of finance leases* of Euro 19,686 thousand, equal to discounted future instalments.

The loan due to Simest of Euro 3,696 thousand derives from Tesmec USA's share capital increase carried out in January 2010.

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 2011, 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 2011 | Portion within 12 months | Portion within 5 years | Portion after more than 5 years |
|--|-----------|--|---------------------------------------|--------------------------|------------------------|---------------------------------|
| Efibanca | 30-Jun-12 | floating interest rate equivalent to 3-month Euribor rate + spread of 1.7% | 1,875 | 1,875 | - | - |
| Eracle Finance | 31-Jul-13 | fixed interest rate of 7.61% + floating interest rate <0.0% and 0.1%> equivalent to 3-month Euribor rate + spread of 1.10% | 3,965 | - | 3,965 | - |
| Banca Popolare di Lodi | 31-Mar-13 | floating interest rate equivalent to 3-month Euribor rate + spread of 1.5% | 500 | 400 | 100 | - |
| Iccrea Banca - Istituto Centrale del Credito Cooperativo | 30-Sep-14 | floating interest rate equivalent to 3-month Euribor rate + spread of 1.70% | 1,106 | 392 | 714 | - |
| Banca Popolare dell'Emilia Romagna | 31-Dec-14 | Fixed interest rate of 4.2% | 1,250 | 399 | 851 | - |
| Banca Nazionale del Lavoro | 31-May-18 | floating interest rate equivalent to 6-month Euribor rate + spread of 2.25% | 6,000 | 462 | 3,692 | 1,846 |
| Banca Nazionale del Lavoro | 04-Mar-16 | 6-month Euribor rate + spread of 2% (+/- 0.25) | 13,408 | 833 | 12,575 | - |
| Popolare Emilia Romagna | 31-Dec-12 | 3-month Euribor rate + spread of 1.65% | 2,488 | 2,488 | - | - |
| Credito Valtellinese | 31-Dec-14 | floating interest rate equivalent to 3-month Euribor rate + spread of 3% | 1,988 | 633 | 1,355 | - |
| Total | | | 32,580 | 7,482 | 23,252 | 1,846 |

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 | | | |
|---|---------------|---|---------------|---|
| | 2011 | of which with related parties and group | 2010 | of which with related parties and group |
| <i>(Euro in thousands)</i> | | | | |
| Cash and cash equivalents | (13,361) | | (7,429) | |
| Current financial assets ⁽¹⁾ | (9,706) | (9,516) | (563) | (384) |
| Current financial liabilities | 25,137 | 740 | 14,336 | 2,208 |
| Current portion of derivative financial instruments | - | | 90 | |
| Current financial indebtedness ⁽²⁾ | 2,070 | (8,776) | 6,434 | 1,824 |
| Non-current financial liabilities | 49,516 | 18,946 | 19,669 | - |
| Non-current portion of derivative financial instruments | 323 | | 34 | |
| Non-current financial indebtedness ⁽²⁾ | 49,839 | 18,946 | 19,703 | - |
| Net financial indebtedness pursuant to CONSOB Communication No. DEM/6064293/2006 | 51,909 | 10,170 | 26,137 | 1,824 |

⁽¹⁾ The current financial assets as at 31 December 2011 and 31 December 2010 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.

During the 2011 financial period, the *net financial indebtedness* of the Company increased compared to 2010 by Euro 25,772 thousand, due to the combined effect of the following changes:

- increase in *current financial liabilities* from Euro 14,336 thousand to Euro 25,137 thousand, of which Euro 740 thousand due to recognition of the short-term portion of the loan relating to the new lease contract described in paragraph 4 and the remainder to greater recourse to advances on exports;
- increase in *non-current financial liabilities* from Euro 19,669 thousand to Euro 49,519 thousand mainly due to: (i) net increase in financial leases (Euro 20,722 thousand as at 31 December 2011 compared to Euro 1,312 thousand as at 31 December 2010), including Euro 18,946 thousand resulting from the new lease contract described in paragraph

5, (ii) use of Euro 14 million of the new credit facility granted by BNL and (iii) reclassification to current financial liabilities of Euro 7,684 thousand as the short-term portion of medium/long-term loans. Net of the effects of the new lease contract described in paragraph 4, the net financial indebtedness would increase by Euro 30.2 million reflecting in parallel the changes in working capital described above.

The above are offset by:

- increase in *current financial assets* from Euro 563 thousand to Euro 9,706 thousand mainly due to (i) the classification in accordance with IAS 17 of the portion not referable to the Lease Contracts between Tesmec S.p.A. and Dream Immobiliare S.r.l. of the initial disbursement carried out by the Company as an advance payment/deposit to secure the right of option of takeover in the original contract of financial lease signed by Dream Immobiliare S.r.l. (see paragraph 4) of Euro 864 thousand and (ii) to the short-term loan granted to the Tesmec USA subsidiary with the aim of paying off all the existing payable to Southwest Securities in the first half of 2011 (of Euro 4.6 million) of Euro 7,251 thousand.

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 2011 and 31 December 2010 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 | |
|---|------|---|---------------------------------|------------|---------------|---------------------------|---|------|
| | | | | | | | 2011 | 2010 |
| BNL | IRS | Fixed interest rate 4.6% | Euribor 3 months | 02/10/2008 | 02/10/2011 | 2,500,000 | - | (90) |
| Banca Popolare di Lodi | IRS | Fixed interest rate 4.25% | Euribor 3 months | 31/03/2008 | 31/03/2013 | 900,000 | (12) | (34) |
| 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 | (95) | 131 |
| BNL | IRS | Fixed interest rate 2.57% | Euribor 3 months | 07/07/2011 | 04/03/2016 | | (216) | - |
| Assets for derivative Instruments | | | | | | | - | 131 |
| Liabilities for derivative instruments within the financial period | | | | | | | - | (90) |
| Liabilities for derivative instruments beyond the financial period | | | | | | | (323) | (34) |

Tesmec S.p.A. uses derivative financial instruments in order to hedge the interest-rate risk and the exchange-rate risk. The transactions for interest-rate risk hedging are mainly related to medium-term loans. The Company does not account for these financial instruments according to the methods established for hedge accounting since they do not meet all the requirements provided on this matter by the international accounting standards. Therefore, the changes in fair value of the financial instruments are attributed to the income statement during the financial period under review.

The financial management of the Company does not envisage the trading of derivative instruments with speculative purposes.

19. Employee benefit liability

The Company has no defined benefit pension plans in the strict sense.

However, the severance indemnity fund required by Article 2120 of the Italian Civil Code, in terms of recognition in the financial statements, falls under this type and as such was accounted for, as shown in the applied accounting policies.

The following table shows the changes for the period ended 31 December 2011 and 31 December 2010 of employee benefits:

| | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Present value of the liability at the beginning of the period | 2,968 | 3,211 |
| Curtailment | - | - |
| Financial expense | 121 | 135 |
| Transfers | - | - |
| Benefits paid | (545) | (411) |
| Actuarial profit / loss recognised | (41) | 33 |
| Present value of the liability at the end of the period | 2,503 | 2,968 |

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 | |
|-------------------------------------|------------------------------------|-------|
| | 2011 | 2010 |
| 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 | |
|----------------------|------------------------------------|--------|
| | 2011 | 2010 |
| Advance frequency % | 1.00% | 1.70% |
| Turnover frequency % | 12.46% | 16.00% |

Workforce

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

| (average no. of employees) | Financial period ended 31 December | |
|---|------------------------------------|------------|
| | 2011 | 2010 |
| Managers | 7 | 8 |
| Executives, employees and equated (including Beijing representative office) | 130 | 102 |
| Workers | 162 | 159 |
| Total | 299 | 269 |

The average number of employees as at 31 December 2011 shows the growing trend of the Company in 2011 that was partially related to the listing process occurred in the 2010 financial period. 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 2011 and 2010 financial periods:

| (Euro in thousands) | 31 December | |
|--|---------------|---------------|
| | 2011 | 2010 |
| Advances from banks against invoices and bills receivables | 15,150 | 7,019 |
| Short-term portion of financial leases | 499 | 302 |
| Financial payables due to subsidiaries | 740 | 2,208 |
| Advances from factors | 1,057 | 761 |
| Current accounts overdraft | - | - |
| Short-term loans to third parties | 210 | - |
| Current portion of interest-bearing loans and borrowings | 7,482 | 4,046 |
| Total interest-bearing financial payables (current portion) | 25,138 | 14,336 |

Advances from banks amounts to Euro 15,150 thousand and increases by Euro 8,131 thousand as a result of a greater use of advances on discounted export invoices with more extended payment terms compared to the standard terms of the Group.

Advances from factors increased compared to the prior financial period passing from Euro 761 thousand to Euro 1,057 thousand. This item refers to advances without recourse granted to some suppliers by leading factoring companies.

The current portion of interest-bearing loans and borrowings increased of Euro 3,436 thousand following the drawing-up during 2011 of three new loan agreements described in paragraph 17.

21. Trade payables

The breakdown of *Trade payables* as at 31 December 2011 and as at 31 December 2010, respectively, is indicated in the table below:

| (Euro in thousands) | 31 December | |
|---|---------------|---------------|
| | 2011 | 2010 |
| Trade payables due to third-parties | 24,941 | 23,478 |
| Trade payables due to subsidiaries | 33 | 1,464 |
| Trade payables due to associates and joint ventures | - | 7 |
| Trade payables due to related parties | 35 | 77 |
| Total trade payables | 25,009 | 25,026 |

Trade payables as at 31 December 2011 decreased of Euro 17 thousand compared to 31 December 2010 and are substantially in line with the previous financial period.

22. Income taxes payable

The balance of Euro 2,318 thousand as at 31 December 2011 and Euro 3,847 thousand as at 31 December 2010 represents the amount payable for current income taxes for the period, which are broken down as follows:

| (Euro in thousands) | 31 December | |
|-----------------------------------|--------------|--------------|
| | 2011 | 2010 |
| IRPEF liabilities for employees | 475 | 512 |
| Current IRES tax liabilities | 1,160 | 2,809 |
| Current IRAP tax liabilities | 661 | 495 |
| Other current taxes | - | - |
| Withholding taxes | 22 | 31 |
| Total income taxes payable | 2,318 | 3,847 |

IREs and IRAP taxes payable as at 31 December 2011 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 2011 and 2010 are indicated below:

| (Euro in thousands) | Financial period ended 31 December | |
|--------------------------------|------------------------------------|------------|
| | 2011 | 2010 |
| Value as at 1 January | 778 | 600 |
| Provisions | 7 | 178 |
| Uses | (178) | - |
| Value as at 31 December | 607 | 778 |

The uses include the amount of Euro 178 thousand allocated during the previous 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 this area, such receivable was written down by 50%.

The provision of Euro 7 thousand is related to the provision of risks set aside for the purpose of aligning the value of the investment in the financial statements with the actual value of the shareholders' equity of the Zao Sibtechmash associate.

24. Other current liabilities

The following table sets forth the breakdown of *Other current liabilities* as at 31 December 2011 and 2010:

| (Euro in thousands) | 31 December | |
|--|-------------|------|
| | 2011 | 2010 |
| Due to social security | 665 | 713 |
| Due to INAIL (National Insurance Institute for Industrial Accidents) | (3) | - |
| Due to trade funds | 118 | 115 |

| | | |
|--|--------------|--------------|
| Due to employees and collaborators | 1,854 | 1,890 |
| Due to others | 169 | 12 |
| Accrued expenses and liabilities | 21 | 143 |
| Total other current liabilities | 2,824 | 2,873 |

Other current liabilities decreased compared to the prior financial period of Euro 49 thousand and is substantially in line with that of the previous year. The item 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 2011 and 2010:

| | 31 December | |
|----------------------------|-------------|-------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Deferred tax assets | 2,796 | 3,508 |
| Deferred tax liabilities | 686 | 304 |



The breakdown of net deferred taxes as at 31 December 2011 and 2010 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 | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | | | | | |
| Deferred tax assets | | | | | | |
| Maintenance charges | 5 | 10 | - | - | (5) | (6) |
| Guarantee fund | 165 | 165 | - | - | - | (30) |
| Provision for risks | - | 49 | - | - | (49) | 49 |
| Obsolescence fund | 377 | 377 | - | - | - | - |
| Provisions for doubtful accounts | 125 | 72 | - | - | 53 | (33) |
| Unrealised exchange-rate losses | 72 | 100 | - | - | (28) | 57 |
| Tax effect on UCC gain reversals | 842 | 1,127 | - | (246) | (285) | (147) |
| Reversals of intangible assets | 233 | 302 | - | 22 | (70) | (15) |
| Development costs | 59 | 81 | - | - | (22) | 81 |
| Listing expenses | 918 | 1,225 | - | 584 | (306) | 641 |
| Other temporary differences | - | - | - | - | - | 6 |
| Total deferred tax assets | 2,796 | 3,508 | - | 360 | (712) | 603 |
| Deferred tax liabilities | | | | | | |
| Unrealised exchange-rate gains | (470) | (66) | - | - | (404) | (47) |
| Selling margin pertaining for tax purposes to subs. financial periods | (27) | (27) | - | - | - | 316 |
| <i>Financial lease accounting method</i> | (80) | (109) | - | 223 | 29 | 29 |
| Other temporary differences | (109) | (102) | - | - | (7) | 15 |
| Total deferred tax liabilities | (686) | (304) | - | 223 | (382) | 313 |
| Effect on Shareholders' Equity | | | | | | |
| <i>Net balance deferred wealth taxes</i> | 2,110 | | | | | |
| <i>Represented in the income statement as follows:</i> | | | | | | |
| <i>Deferred tax assets</i> | (712) | | | | | |
| <i>Deferred tax liabilities</i> | (382) | | | | | |
| Deferred tax liabilities, net | (1,094) | | | | | |

Current taxation

Profit before taxes and the allocation for income taxes for the financial periods as at 31 December 2011 and 2010 are summarised below:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|---------------------------------|------------------------------------|--------------|
| | 2011 | 2010 |
| Pre-tax profits | 12,117 | 9,819 |
| Current taxation | 3,510 | 4,238 |
| Deferred tax liabilities/assets | 1,094 | (971) |
| Total taxes | 4,604 | 3,267 |

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 | | |
|--|------------------------------------|---------------|---------------|
| | 2011 | | |
| | | IRES | IRAP |
| <i>(Euro in thousands)</i> | | | |
| Profit before tax | A | 12,117 | 12,117 |
| Difference in taxable income between IRES and IRAP | B | - | 11,485 |
| | C=A+B | 12,117 | 23,602 |
| Nominal rate (%) | D | 27,5% | 3,9% |
| Theoretical taxes | E=C*D | 3,332 | 920 |
| Tax effect on permanent differences | F | 318 | 54 |
| Tax effect on temporary differences | G | (391) | - |
| Tax effect on the re-absorption of temporary differences | H | (656) | (30) |
| Current taxation posted to the income statement | I=E+F+G+H | 2,603 | 944 |
| Deferred tax liabilities | L | 385 | (4) |
| Deferred tax assets | M | 664 | 48 |
| Taxes related to prior financial periods | N | 23 | (60) |
| Aggregate tax posted to the income statement | I+L+M+N | 3,675 | 928 |

Comments to the main items in the income statement

26. Revenues from sales and services

In the 2011 and 2010 financial periods, revenues from sales and services amounted to Euro 101,152 **thousand** and Euro 102,121 thousand, respectively.

The breakdown of revenues from sales and services for the 2011 and 2010 financial periods is shown below:

| | Financial period ended 31 December | |
|---|------------------------------------|----------------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Sales of products | 100,587 | 97,604 |
| Services rendered | 565 | 4,517 |
| Total revenues from sales and services | 101,152 | 102,121 |

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

Revenues decreased by 1% mainly due to lower sales in the Trencher segment in particular in the African Continent and to lower revenues for service activities. Revenues from sales and services include sales of machinery carried out with regard to Joint Venture Tesmec Peninsula WLL, thanks to its initiative, the Group started the commercial penetration in the Saudi Arabian market. These activities could benefit from, inter alia, the contribution of the TME partner skills with which the Group achieved a considerable commercial success in Qatar

27. Cost of raw materials and consumables

For the financial periods as at 31 December 2011 and 2010, cost of raw materials and consumables amount to Euro 48,743 thousand and Euro 48,479 thousand, respectively.

The breakdown of the item is as follows:

| | Financial period ended 31 December | |
|--|------------------------------------|--------|
| | 2011 | 2010 |
| <i>(Euro in thousands)</i> | | |
| Cost for the purchase of raw materials and consumables | 49,252 | 51,149 |

| | | |
|--|---------------|---------------|
| Change in inventories | (509) | (2,670) |
| Total cost of raw materials and consumables | 48,743 | 48,479 |

The increase in *cost of raw materials and consumables* is due to the choice of outsourced work for the purchase of semi-finished goods considering the savings that the supplies from Countries with low labour costs but with high-quality levels succeeded in providing.

28. Costs for services

The table below shows the breakdown of *costs for services* that amounted in 2011 and in 2010 to Euro 19,243 thousand and Euro 22,996 thousand, respectively.

| (Euro in thousands) | Financial period ended 31 December | |
|--|------------------------------------|---------------|
| | 2011 | 2010 |
| Transport, customs and incidental expenses | 2,266 | 2,609 |
| Outsourced work service | 4,054 | 4,911 |
| Services for legal, tax, technical and other consultancy | 3,489 | 6,804 |
| External production services | 1,127 | 1,480 |
| Banking services | 592 | 507 |
| Insurance | 215 | 170 |
| Energy, water, gas, telephone expenses and postage | 1,113 | 984 |
| Board and lodging expenses and travelling allowance | 703 | 673 |
| Directors' and Auditors' fees | 791 | 850 |
| Advertising and other selling expenses | 364 | 630 |
| Maintenance services | 679 | 351 |
| Commissions and additional expenses | 3,103 | 2,317 |
| Other general expenses | 747 | 710 |
| Total costs for services | 19,243 | 22,996 |

The decrease of costs for services is due to the combined effect of:

- *costs related to outsourced work* together with *external production services*, which represent the variable component of this cost item, decreased by 19% from Euro 6,391 thousand in the 2010 financial period to Euro 5,181 thousand in the 2011 financial period. This phenomenon was possible thanks to the strategy of increasing, on the one hand, the production base of the company and, on the other, of choosing to purchase semi-finished goods instead of managing them in account for manufacture, operationally and economically more costly;
- *consultancy costs* of Euro 3,489 thousand in the 2011 financial period compared to Euro 6,804 thousand in the 2010 financial period. In 2010, this item included costs incurred for the listing process and not attributable directly to equity totalling Euro 3,515 thousand. In the current financial period, the item includes costs related to new commercial initiatives on foreign markets where the Company made use of the experience of external consultants;
- *commissions and additional expenses* (Euro 3,103 thousand in the 2011 financial period and Euro 2,317 thousand in the 2010 financial period) increased by 34% and mainly refer to fees recognised to agents of the stringing department that allowed the company to get into new market segments;

29. Payroll costs

During the financial periods ended 31 December 2011 and 2010, payroll costs amounted to Euro 15,261 thousand and Euro 14,360 thousand, respectively, up by 6%.

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|------------------------------|------------------------------------|---------------|
| | 2011 | 2010 |
| Wages and salaries | 11,197 | 10,746 |
| Social security charges | 3,311 | 2,926 |
| Employee severance indemnity | 623 | 627 |
| Other personnel costs | 130 | 61 |
| Total payroll costs | 15,261 | 14,360 |

The increase in this item is related to the adjustment of the personnel to pursue the internationalisation process of some phases of the production process considered strategic.

30. Other operating (costs)/revenues, net

During the financial periods ended 31 December 2011 and 2010, other net operating (costs)/revenues amounted to Euro 1,777 thousand and Euro 3,826 thousand, respectively, with a 53.6% decrease.

The breakdown of the item is as follows:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|--|------------------------------------|--------------|
| | 2011 | 2010 |
| Provisions for risks and other net provisions | 400 | 178 |
| Write-down of equity investments | 348 | - |
| Rents | 987 | 2,968 |
| Hiring | 424 | 382 |
| Other lease and rental expenses | 63 | 104 |
| Sundry taxes | 80 | 188 |
| Other revenues | (361) | (148) |
| Other | (164) | 154 |
| Total other operating (costs)/revenues, net | 1,777 | 3,826 |

Other operating (costs)/revenues, net decreased of Euro 2,049 thousand and is mainly attributable to the New Lease Contract described in paragraph 4 that led to a reduction of Euro 1,826 thousand in Rents. There are no particular changes to be reported compared to the previous financial period.

31. Amortisation and depreciation

During the financial periods ended 31 December 2011 and 2010, depreciation and amortisation amounted to Euro 4,936 thousand, Euro 4,420 thousand, respectively.

The breakdown of the item is as follows:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Amortisation of intangible assets | 3,009 | 2,792 |
| Depreciation of property, plant and equipment | 1,927 | 1,628 |
| Total amortisation and depreciation | 4,936 | 4,420 |

The change of Euro 516 thousand includes the depreciation deriving from the recognition in accordance with IAS 17 of the New Lease Contract described in paragraph 4 of Euro 524 thousand. Net of such effect, the decrease of Euro 8 thousand is in line with the previous financial period.

32. Development costs capitalised

Research and development costs capitalised for the financial periods ended 31 December 2011 and 31 December 2010 amounted to Euro 3,086 and Euro 3,050 thousand, respectively.

During the reporting period, the increase in the item is in line with a continuous development of projects for the launch of new models and new functions requested by the markets in which the company operates.

The percentage incidence on revenues of research and development costs capitalised is in line with the previous financial period up from 2.99% for the 2010 financial period to 3.05% for the 2011 financial period.

33. Financial expenses

During the financial periods ended 31 December 2011 and 2010, financial expenses amounted to Euro 4,658 thousand and Euro 3,024 thousand, respectively, with a 54% increase.

The breakdown of the item is as follows:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Bank interests expense | - | 9 |
| Interests payable for factoring and billing discounts | 443 | 520 |
| Interests payable on interest-bearing loans and borrowings | 1,273 | 839 |
| Interests payable on advance loans on exports | 400 | 353 |
| Interests payable on derivative instruments | - | 163 |
| Other sundry financial expenses | 194 | 403 |
| Financial expenses on lease contracts | 1,195 | 50 |
| Realised foreign exchange losses | 575 | 478 |
| Unrealised foreign exchange losses | 136 | 208 |
| Fair value adjustment of derivative instruments | 442 | 1 |
| Fair value adjustment of financial instruments available for sale | - | - |
| Total financial expenses | 4,658 | 3,024 |

Financial expenses increased of Euro 1,634 thousand as a result of:

- increase in *interest rates payable on interest-bearing loans and borrowings* of Euro 434 thousand following the drawing-up of new loan agreements;
- increase in *financial expenses on lease contracts* of Euro 1,145 thousand due to the amount of interests payable reported following the recognition in accordance with IAS 17 of the New Lease Contract described in paragraph 4 of Euro 1,103 thousand;
- *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;
- *fair value adjustment of derivative instruments* that in the 2011 financial period reported a loss of Euro 442.

34. Financial income

During the financial periods ended 31 December 2011 and 2010, financial income amounted to Euro 2,498 thousand and Euro 1,753 thousand, respectively.

The breakdown of the item is as follows:

| <i>(Euro in thousands)</i> | Financial period ended 31 December | |
|---|------------------------------------|--------------|
| | 2011 | 2010 |
| Interests from banks | 18 | 31 |
| Realised foreign exchange gains | 383 | 1,052 |
| Unrealised foreign exchange gains | 1,707 | 171 |
| Fair value adjustment of derivative instruments | 112 | 222 |
| Fair value adjustment of financial instruments available for sale | - | - |
| Sundry income | 278 | 277 |
| Total financial income | 2,498 | 1,753 |

Financial income increased of Euro 745 thousand mainly due to the adjustment to the exchange rate in effect as at 31 December 2011 of the currency items.

35. Related party transactions

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

In particular, for the financial period ended 31 December 2011, the breakdown of each related party is indicated below:

| | Financial period ended 31 December | | | | | | | 31 December | | | | |
|-----------------------------------|------------------------------------|------------------------|--------------------|---------------------------------------|---|-------------------|-------------------------------|----------------------|----------------|-------------------------------|-----------------------------------|---------------------------|
| | 2011 | | | | | | | 2011 | | | | |
| | Revenues | Costs of raw materials | Costs for services | Other operating (costs)/revenues, net | Financial expenses and share of profit/loss | Trade receivables | Current financial receivables | Other current assets | Trade payables | Current financial liabilities | Non current financial liabilities | Other current liabilities |
| <i>(Euro in thousands)</i> | | | | | | | | | | | | |
| Subsidiaries: | | | | | | | | | | | | |
| Tesmec Balkani E.A.D. | - | - | (15) | - | (4) | - | 100 | - | 3 | - | - | - |
| Tesmec Service S.p.A. | - | (534) | (384) | - | 5 | - | 105 | - | - | - | - | - |
| Tesmec USA, Inc. | 1,860 | (446) | 17 | - | 194 | 794 | 7,979 | - | 30 | - | - | - |
| Tesmec SA | 167 | - | - | - | 3 | 167 | 175 | - | - | - | - | - |
| Subtotal | 2,027 | (980) | (382) | - | 198 | 961 | 8,359 | - | 33 | - | - | - |
| Associated companies: | | | | | | | | | | | | |
| East Trencher S.r.l. | - | - | (117) | - | 5 | - | 51 | - | - | - | - | - |
| Locavert S.A. | 259 | - | - | - | - | 79 | - | - | - | - | - | - |
| Sibtechmash | - | - | - | - | - | 16 | - | - | - | - | - | - |
| Subtotal | 259 | - | (117) | - | 5 | 95 | 51 | - | - | - | - | - |
| Joint ventures: | | | | | | | | | | | | |
| Condux Tesmec Inc. | 2,393 | - | - | - | 44 | 1,442 | 35 | - | - | - | - | - |
| Tesmec Peninsula | 10,739 | - | 66 | - | - | 10,257 | - | - | - | - | - | - |
| Subtotal | 13,132 | - | 66 | - | 44 | 11,699 | 35 | - | - | - | - | - |
| Related parties: | | | | | | | | | | | | |
| Ambrosio S.r.l. | - | - | - | (17) | - | - | - | - | 21 | - | - | - |
| Caterina Caccia Dominioni, Lawyer | - | - | (16) | - | - | - | - | - | (16) | - | - | - |
| Matteo Caccia Dominioni | - | - | - | - | - | - | - | - | 24 | - | - | - |
| CBF S.r.l. | - | - | - | (378) | - | - | - | 94 | - | - | - | - |
| Ceresio Tours S.r.l. | - | - | (15) | - | - | - | - | - | 1 | - | - | - |
| Dream Immobiliare S.r.l. | - | - | (24) | (311) | (1,099) | 2 | 1,069 | 183 | - | 740 | 18,946 | - |
| Eurofidi S.p.A. | - | - | - | - | - | - | 2 | - | - | - | - | - |
| FI.IND S.p.A. | - | - | 22 | - | - | 42 | - | - | - | - | - | - |
| Jaeggli Meccanotessile S.r.l. | - | - | (2) | - | (5) | - | - | - | 5 | - | - | - |
| Jaeggli S.p.A. | - | - | - | - | - | - | - | - | - | - | - | - |
| Lame Nautica S.r.l. | 2 | - | - | - | - | 1 | - | - | - | - | - | - |
| M.T.S. Officine Meccaniche S.p.A. | 1,915 | (24) | (131) | (2) | - | 1,470 | - | 2 | - | - | - | - |
| Reggiani Macchine S.p.A. | 3 | - | 142 | (35) | 23 | 184 | - | - | - | - | - | 17 |
| Subtotal | 1,920 | (24) | (24) | (743) | (1,081) | 1,699 | 1,071 | 279 | 35 | 740 | 18,946 | 17 |
| Total | 17,338 | (1,004) | (457) | (743) | (834) | 14,454 | 9,516 | 279 | 68 | 740 | 18,946 | 17 |

- Tesmec Balkani EAD: the operations of the subsidiary in 2011 were low and it was financed by the Company at market rates;
- Tesmec Service S.p.A.: the subsidiary will carry out all the rental or service activities of the Group. The costs borne by Tesmec to the subsidiary refer to the purchase of a trencher sold later by Tesmec S.p.A. to a third party;

- 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 S.p.A.;
- Tesmec SA: the subsidiary company started its operations in August 2011. The subject-matter of its activity is to invest in important projects in the telecommunications sector and to capture new market shares. Revenues of Euro 167 thousand refer to the rental of a trencher;
- East Trenchers: 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 that traditionally are coupled with this kind of activity at market prices and terms of payment;
- Locavert: the French associate purchases normally trenchers/spare parts for rental business and carrying-out of excavation works at market prices and terms of payment;
- Condux Tesmec: the JV purchases stringing machines and equipment for sale on the American market at market prices and terms of payment;
- Tesmec Peninsula: the JV set-up in the month of March 2011 operates on the market of Saudi Arabia. Revenues refer to sales carried out during 2011 with the Arab joint venture in order to penetrate the market of Saudi Arabia;
- Ambrosio: costs for services refer to the rental for the registered office of Milan;
- C.B.F.: the item "Other operating costs" includes the cost for the lease of the building of Sirone of Euro 378 thousand;
- Dream Immobiliare: financial income and expenses include interests payable deriving from the recognition in accordance with IAS 17 of the New Lease Contract described in paragraph 4 of Euro 1,103 thousand; other operating costs include the cost for the lease of the building of Endine of Euro 311 thousand;
- 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 costs related to users for a total amount of Euro 142 thousand.



| | Financial period ended 31 December | | | | | | 31 December | | | | | |
|---|------------------------------------|------------------------|--------------------|---------------------------------------|---|-------------------|-------------------------------|----------------------|----------------|-------------------------------|--------------------------------|---------------------------|
| | 2010 | | | | | | 2010 | | | | | |
| | Revenues | Costs of raw materials | Costs for services | Other operating (costs)/revenues, net | Financial expenses and share of profit/loss | Trade receivables | Current financial receivables | Other current assets | Trade payables | Current financial liabilities | Non current financial payables | Other current liabilities |
| <i>(Euro in thousands)</i> | | | | | | | | | | | | |
| Subsidiaries: | | | | | | | | | | | | |
| Tesmec Balkani E.A.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 | - | - | 1,260 | 2,208 | - | - |
| Subtotal | 1,459 | (5,627) | (222) | (3) | (246) | 878 | 177 | - | 1,464 | 2,208 | - | - |
| Associated companies: | | | | | | | | | | | | |
| East Trencher S.r.l. | - | - | (25) | - | - | 189 | - | - | 7 | - | - | - |
| Locavert S.A. | 130 | - | - | - | - | 30 | - | - | - | - | - | - |
| Sibtechmash | - | - | - | - | - | 15 | - | - | - | - | - | - |
| Subtotal | 130 | - | (25) | - | - | 234 | - | - | 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) | 4,046 | 384 | 427 | 1,548 | 2,208 | - | - |

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

Year 2011:

| Board of Directors | | | | |
|-------------------------------|--------------------------------|-------------------|---|-------------------------|
| Name and Surname | Role | Fees (in Euro) | Bonus and other incentives (in Euro) | Total fees (in Euro) |
| Ambrogio Caccia Dominioni | Chairman and Managing Director | 450,000 | - | 450,000 |
| Alfredo Brignoli | Vice Chairman | 40,000 | - | 40,000 |
| Gianluca Bolelli | Vice Chairman | 52,000 | 70,000 | 122,000 |
| 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 | 12,480 | - | 12,480 |
| Michele Carlo Felice Milani | Director | 50,000 | - | 50,000 |
| Sergio Arnoldi | Director | 20,800 | - | 20,800 |
| Caterina Caccia Dominioni | Director and Secretary | 26,000 | 15,600 | 41,600 |

| Board of Statutory Auditors | | | | |
|-----------------------------|-------------------|-------------------|--|-------------------------|
| Name and Surname | Role | Fees (in Euro) | Bonus and other incentives (in Euro) | Total fees (in Euro) |
| Simone Cavalli | Chairman | 37,644 | - | 37,644 |
| Stefano Chirico | Statutory Auditor | 27,241 | - | 27,241 |
| Claudio Melegoni | Statutory Auditor | 25,428 | - | 25,428 |

Fees paid to executives with strategic responsibilities in the 2011 financial period amounted to Euro 334 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 2011 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.

| (Euro in thousands) | Independent Auditors that supplied the service | Receiver | Accrued amount |
|---|---|------------------------------|----------------|
| | | | 2011 |
| Audit of the financial statements and consolidated financial statements | Reconta Ernst & Young S.p.A. | Tesmec S.p.A. Parent Company | 100 |
| Limited half-year auditing | Reconta Ernst & Young S.p.A. | Tesmec S.p.A. Parent Company | 20 |
| Certification services ⁽¹⁾ | Reconta Ernst & Young S.p.A. | Tesmec S.p.A. Parent Company | 5 |
| Other services ⁽²⁾ | Reconta Ernst & Young S.p.A. network | Subsidiaries | 23 |
| Total | | | 148 |

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

(2) The item refers to services carried out for the opening of the new bank, OOO Tesmec RUS.

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 2010 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 2011 and 2010, they are summarised as follows:

| (Euro in thousands) | 31 December | |
|------------------------------------|--------------|--------------|
| | 2011 | 2010 |
| Sureties | 5,322 | 2,892 |
| Total commitments and risks | 5,322 | 2,892 |

Sureties

The recorded value concerns sureties provided by Tesmec S.p.A. during the financial periods 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 financial statements.

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 13 January 2012, Tesmec S.p.A. signed an investment agreement in Bertel S.p.A. Performing the investment contract, Tesmec S.p.A. entered in the share capital of Bertel through a reserved capital increase of a nominal amount of Euro 200 thousand by means of which it has come to hold 40% of the share capital of Bertel. The investment contract also includes the support of the development plan of Bertel and an option to purchase in favour of Tesmec of an additional 20% of the share capital of Bertel to be exercised according to established time frames in the period from 1 January 2014 to 31 March 2016.

Bertel S.p.A., with registered office in Piacenza, is a start-up operating in a market with a high technical profile such as that of streamlining systems of High-Voltage Power Networks and offers innovative technological solutions. The Company has a very high know-how in continuous development through the use of highly specialised young technicians;

- On 10 January 2012, the Shareholders' Meeting authorised the buy-back plan of treasury shares, the authorisation was granted for a period of 18 months; the Board of Directors, held on the same day, started the plan and the maximum quantity was initially fixed at 2% of the Share Capital. From the start of the buy-back plan to the date of this report a total of 100,000 shares (0.093% of the Share Capital) were purchased at an average price of Euro 0.364 (net of commissions) for a total equivalent value of Euro 36,442;
- On 12 March 2012, a contract for the lease of a business unit related to the marketing and design of the AMC2 Progetti e Prototipi S.r.l. company, operating in mechanical design, electrical engineering, and railway rolling stock production for the remuneration of the railway infrastructure was signed.

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 2011 financial period.

2. We also attest that:

2.1 the financial statements as at 31 December 2011:

- 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 2012

Ambrogio Caccia Dominioni
Chief Executive Officer

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

REPORT OF THE BOARD OF STATUTORY AUDITORS OF THE
SHAREHOLDERS' MEETING

TESMEC S.p.A.
Registered office in Milan, Piazza S. Ambrogio no. 16
Subscribed and paid-up share capital Euro 10,708,400
Tax code and registration number at the
Milan Register of Companies no. 10227100152
Economic and Administrative Register (REA) no. 1360673

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF TESMEC S.P.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Dear Shareholders,

During the financial period ended 31 December 2011, the Board of Statutory Auditors of Tesmec S.p.A. (the "Company") carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession (CNDCEC), by attending the meetings of the company Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors Reconta Ernst & Young S.p.A. (the "Independent Auditors"), the members of the Internal Control Committee, the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions and the Manager responsible for preparing the Company's financial statements for an exchange of information on activities and programs.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 (the "Consolidated Law on Finance (T.U.F.)") and of Article 2429, paragraph 3 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, we report the following:

- we supervised the observance of the law and of the articles of association;
- we obtained from the Directors, on a regular basis, information on management performance and business outlook as well as on the business carried on and on the major economic and financial operations performed during the financial period, also through subsidiaries, verifying that they comply with the law and with the articles of association and that they are not clearly imprudent or reckless, in potential conflict of interest, in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the integrity of the company assets;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report and the quarterly interim reports on operations;
- there are no atypical and/or unusual operations with third parties, companies of the Group or related parties to report, nor have we received information from the Board of Directors, Independent Auditors or Internal Control Committee on the subject;
- the Directors illustrated, in the accompanying report on operations both to the financial statements of Tesmec S.p.A. and to the consolidated financial statements of the Tesmec Group as well as in the relevant explanatory notes, ordinary operations carried out during the financial period with related parties or companies of the group. Reference is made to those documents, to the extent of our authority, and in particular for what concerns the description of the characteristics of the operations and relevant economic and financial effects. With reference to such operations, with the help of the Board of Directors and of the Internal Control Committee we verified the existence and compliance with

procedures designed to ensure that they are concluded at market conditions and conforming to the normal management of the company. In this regard, we also supervised the compliance with the principles indicated in the CONSOB Regulation containing provisions on related party transactions adopted with resolution no. 17221 of 12 March 2010, as subsequently amended (the "OPC Regulation"), of the subsequent Procedure for Related Party Transactions, adopted by the Board of Directors on 30 November 2010, as well as on its application. Specifically, it is noted that on 30 January 2011 the Parent Company Tesmec S.p.A. signed a new contract with the related company Dream Immobiliare S.r.l. for the property of Grassobbio (BG) that will guarantee the availability of the main production site until 31 January 2025; the report on operations and in the explanatory notes show in detail the economic and financial effects of the operation;

- the information concerning the transactions with related parties or intragroup companies, contained in particular in the "Related party transactions" paragraph of the explanatory notes to the IAS/IFRS consolidated financial statements of the Tesmec Group and "Related party transactions" paragraph of the explanatory notes to IAS/IFRS financial statements of Tesmec S.p.A. is adequate, given the size and structure of the Company;
- no complaints were received ex Article 2408 of the Italian Civil Code nor statements from third parties;
- we received from the Independent Auditors the information concerning the hours used and the amounts invoiced all-in-all by them for the external audit of the separate and consolidated financial statements of the Company as at 31 December 2011, as well as for the restricted external audit of the half-yearly report and for verifying the regular keeping of the company accounting;
- it results from the information received from the Independent Auditors that, during the financial period, Tesmec S.p.A. entrusted the latter or its network with tasks for fees totalling Euro 28 thousand, in addition to those concerning the external audit, as reported in the explanatory notes;
- we received notice confirming the independence of the Independent Auditors, in charge of the external audit pursuant to Article 17, paragraph 9, letter a), of Italian Legislative Decree no. 39/2010 and no situations compromising this independence or the occurrence of incompatibility causes were reported; moreover, we discussed with the Independent Auditors the risks for their independence as well as the measures taken to mitigate those risks;
- we received from the Independent Auditors the report set forth in the third paragraph of Article 19 of Italian Legislative Decree 39/2010 of 28 March 2012 from which it appears that on the basis of the work carried out no "basic issues" or "significant failures in the internal audit in relation to the process of financial reporting" were identified, also with regard to subsidiaries outside the European Union;
- we supervised the efficiency of the external audit process by examining with the Independent Auditors the audit plan and by discussing on the activities carried out;
- the Independent Auditors issued on 28 March 2012 the Reports on the separate and consolidated financial statements. They do not contain observations or requests for information;
- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of Consolidated Law on Finance and 84-quarter of the Issuers' Regulation and we have no special observations to make;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we verified that independence requirements of the Statutory Auditors remain valid, already ascertained before the appointment, on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;

- during the financial period, we attended 5 meetings of the current Board of Directors. During the same period, the Board of Statutory Auditors met 10 times including 5 in joint session with the Internal Control Committee;
- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organisational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance, by means of direct observations, collecting information from department heads and meetings with the Independent Auditors, with the manager responsible for preparing the Company's financial statements and with the Head of Internal Control in order to exchange relevant data and information.
- we ensured that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided by Article 36 of the Market Regulation adopted with CONSOB Resolution no. 16191 of 29 October 2007;
- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and efficiency of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance to the meetings of the Internal Control Committee and meetings with the Manager responsible for preparing the Company's financial statements, and Executive Director in charge of supervising the functionality of the internal control system;
- during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of the Consolidated Law on Finance no relevant issues emerged that would require any particular comments;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption was approved by the Board of Directors during the meeting of 23 February 2010. We confirm compliance with the regulations provided by the above Code. This compliance was covered in the 2011 report on Corporate Governance and ownership structures of Tesmec S.p.A. that is available in the forms provided. We point out that during the meeting of 4 August 2011 the Board of Directors of Tesmec S.p.A. declared the TESMEC USA subsidiary as **"subsidiary company with strategic importance"**;
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, the compliance with the rules of law concerning the preparation and layout of the consolidated financial statements of the Tesmec Group, of the financial statements of Tesmec S.p.A. and of the report on operations. Moreover, nothing to be reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- the Company is provided with the Organisational, Management and Control Model provided by Article 6 of Italian Legislative Decree no. 231/2001 (the **"Organisational Model"**) and with the Code of Ethics. The Supervisory Body reported on the activities carried out without pointing out matters that could be subject to sanction or specific violations of the Model;
- the Directors, in the paragraph called **"Main risks and uncertainties to which the Tesmec Group is exposed"** on the Report on operations, point out the risk factors or uncertainties that may significantly affect the activity of the Tesmec Group. In particular, some information tending to illustrate the aims and policies of the Group on the management of the exchange-rate, price and financial risk, as well as tending to indicate the degree of exposure to credit risk, liquidity risk and cash-flow variation risks are provided.

Considering all the above, we find no reasons not to approve - to the extent of our authority - the financial statements as at 31 December 2011, or to make observations on the proposal of appropriation of the profit for the year, including the proposal for dividend distribution, contained in the report on management performance prepared by the Board of Directors.

Grassobbio, 29 March 2012

The Board of Statutory Auditors

Simone Cavalli - Chairman

Claudio Melegoni - Statutory Auditor

Stefano Chirico - Statutory Auditor

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

INDEPENDENT AUDITOR'S REPORT

**Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 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 31 December 2011 and for the year then ended, 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 Directors. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit 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 of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 29, 2011.

3. In our opinion, the financial statements of Tesmec S.p.A. at 31 December 2011 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 Directors of Tesmec S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure 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 of the information presented 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) 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 presented 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) in the Report on Corporate Governance and Ownership Structure, are consistent with the financial statements of Tesmec S.p.A. at 31 December 2011.

Milan, March 28, 2012

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

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

ANNEXES

Annex A

List of investments held at 31 December 2011 by Tesmec and statement of changes during the financial period

The following is the list of investments held as at 31 December 2011, which includes, under Article 126 of CONSOB Regulation 11971/99, the investments held in companies with unlisted shares or in limited liability companies, in more than 10 % of the capital.

CHANGES IN INVESTMENTS MADE DURING FINANCIAL PERIOD ENDED 31 DECEMBER 2011

| Company | 31 December 2010 | | | Increases | | Decreases | | Other changes | 31 December 2011 | | |
|--|------------------|------------|-------------------|-----------|---------|-----------|-------|------------------------|------------------|------------|-------------------|
| | Quantity | % | Value | Quantity | Cost | Quantity | Cost | Write-down Revaluation | Quantity | % | Value |
| <i>Subsidiaries consolidated</i> | | | | | | | | | | | |
| Tesmec USA Inc. | 7,950,000 | 75.00% (1) | 13,807,093 | - | - | - | - | - | 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 |
| OOO Tesmec Rus | - | 0.00% | - | 10,590 | 10,590 | - | - | - | 10,590 | 100.00% | 10,590 |
| Tesmec SA | - | 0.00% | - | 100 | 92 | - | - | - | 100 | 100.00% | 92 |
| Tesmec Balkani EAD | 3,300 | 66.00% | 203,000 | 1,700 | 26,692 | - | - | (30,846) | 5,000 | 100.00% | 198,846 |
| Total | | | 14,335,975 | | | | | | | | 14,342,503 |
| <i>Associates consolidated under the equity method</i> | | | | | | | | | | | |
| Zao Sibtechmash | 12,272 | 20.00% | 122,636 | - | - | - | - | (122,636) | 12,272 | 20.00% | - |
| Tesmec Peninsula | - | 0.00% | - | 346,125 | 346,125 | - | - | - | 346,125 | 49.00% | 346,125 |
| Locavert S.A. | 20,525 | 38.63% | 52,000 | - | - | - | - | - | 20,525 | 38.63% | 52,000 |
| East Trenchers S.r.l. | 7,200 | 24.00% | 7,200 | - | - | - | - | - | 7,200 | 24.00% | 7,200 |
| Consorzio Lombartech | 15,000 | 19.23% | 15,000 | - | - | - | - | (13,103) | 15,000 | 19.23% | 1,897 |
| 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 | 5,000 | - | - | 50.00% | - |
| Total | | | 1,157,599 | | | | | | | | 1,362,985 |

(1) As a result of the increase in share capital that took place on 18 January 2010, the Tesmec USA company is 75% owned by Tesmec S.p.A. and 25% by Simest S.p.A. Since the contract includes an option of Tesmec to repurchase the Simest's shareholding interest, the value includes such amount of Euro 3,696 thousand. For more details, see Note 6 of the explanatory notes to the financial statements of Tesmec S.p.A.



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