DISCLOSURE DOCUMENT

REGARDING RELATED-PARTY TRANSACTIONS OF HIGH SIGNIFICANCE

relating to

(i) the execution of a framework agreement between Tesmec S.p.A. and MTS – Officine Meccaniche di Precisione S.p.A. concerning the acquisition by MTS of machines made by the Tesmec Group;

(ii) the execution of a procurement contract between Tesmec S.p.A. and MTS – Officine Meccaniche di Precisione S.p.A. concerning the supply by Tesmec Group to MTS – Officine Meccaniche di Precisione S.p.A. and, in general, the users of machines of its range of services; and

(iii) the execution of a framework agreement between Tesmec S.p.A. and MTS – Officine Meccaniche di Precisione S.p.A. concerning the rental from the latter to the Tesmec Group of certain machines,

prepared pursuant to Article 5 of the Procedure concerning related-party transactions of Tesmec S.p.A. and of Article 5 of the Regulation approved by Consob with the Resolution No. 17221 of 12 March 2010, as successively supplemented and amended.

Milan, 2 November 2017

Disclosure document made available to the public at the administrative offices of Tesmec S.p.A. in Grassobbio (BG), Via Zanica no. 17/O, on the Tesmec S.p.A. website. www.tesmec.com, on the authorised storage mechanism, eMarket-Storage at address www.emarketstorage.com, as well as at Borsa Italiana S.p.A. (Milan, Piazza degli Affari no. 6)

DEFINITIONS

Sales Agreement	Framework agreement between Tesmec and MTS concerning the purchase by MTS of Machines produced by the Tesmec Group.
Rental Agreement	Framework agreement between Tesmec and MTS concerning the rental of certain Machines by MTS from the Tesmec Group.
Project Activities	The activities undertaken by the Tesmec Group within the Projects carried out as (i) a subcontractor arranging the provision of services for the activities of excavation and the inter-connection of varied installations, or (ii) a supplier, making available to the Project Manager its own Machines and the qualified personnel to utilise and maintain them.
Borsa Italiana	Borsa Italiana S.p.A., with registered office in Milan, Piazza degli Affari, No. 6.
Rental Fee	The fee provided for the individual rental contracts entered into pursuant to the Rental Agreement.
Related-Party Committee or Committee	The risk control committee with committee functions regarding Related-Party Transactions of the Company.
Consob	Italian Supervisory Authority on Financial Markets, with registered office in Rome, Via G.B. Martini no. 3.
Services Contract	Procurement contract between Tesmec and MTS concerning the supply of services by the Tesmec Group to MTS - and, in general - to the users of the Machines of its range of services (transport, maintenance, in and out of warranty services, storage, repair, etc.).
Disclosure Document	This disclosure document.
Issuer or Company or Tesmec	Tesmec S.p.A., with registered office in Milan, Piazza Sant'Ambrogio no. 16 and secondary office in Grassobbio (BG), Via Zanica no. 17/O.
Expert	Professor Alessandro Cortesi, an independent expert appointed by the Company pursuant to Article 7, paragraph 1, letter B) of the Related-Party Regulation, upon request of the Related-Party Committee, to assess the fairness of the rental fees of the Machines and to provide support to the evaluations of the Related-Party Committee.
Fi. Ind.	Fi. Ind. S.p.A., with registered office in Milan, Piazza Sant'Ambrogio no. 16.
Tesmec Group or Group	The Issuer and the companies that are its subsidiaries pursuant to Article 2359 of the Italian Civil Code.
Machines	The machines used in the performance of the Project Activities, that is (i) the standard machines requiring limited capex, and having a high level of adaptability regarding usage in various sectors and (i) the special machines to be used for specific Projects and geographical areas, with high capex levels.

MTS	MTS – Officine Meccaniche di Precisione S.p.A., with registered office in Sirone (LC), Via Provinciale no. 26/28.
Related Parties	The persons encompassed by the definition of the Related-Party Regulation and Related-Party Procedure.
Related-Party Procedure or Procedure	The Procedure regarding Related-Party Transactions adopted by Tesmec.
Projects	Projects carried out in the fields of renewable energy, networks and telecommunications.
Issuers' Regulation	The regulation adopted by Consob with Resolution No. 11971 of 14 May 1999, as subsequently amended and supplemented.
Related-Party Regulation	The regulation adopted by Consob with Resolution No. 17221 of 12 March 2010, as subsequently amended and supplemented.
Articles of Association	The Articles of Association of the Issuer in effect at the publication date of this Disclosure Document.
Italian Consolidated Law on Finance or TUF	Legislative Decree No. 58 of 24 February 1998, as subsequently amended and supplemented.
TTC	TTC S.r.l., with registered office in Milan, Via Fara Gustavo no. 35.

INTRODUCTION

This Disclosure Document was prepared by the Tesmec Board of Directors in compliance with the provisions of Article 5 of the Procedure and Article 5 of the Related-Party Regulation, to assure the substantial and procedural transparency and fairness of the transactions consisting in the execution of the three contracts described in the subsequent Paragraph 2.1, being:

(i) the Sales Agreement, concerning the sale by Tesmec to MTS of certain Machines produced by the Tesmec Group;

(ii) the Services Contract concerning the supply by the Tesmec Group to MTS - and, in general - to the users of the Machines of its range of logistical and maintenance services (transport, maintenance, in and out of warranty services, storage, repair, etc.);

(iii) the Rental Agreement, concerning the rental from MTS to the Tesmec Group of certain Machines owned by MTS.

The transactions are between related parties, as MTS and Tesmec are both controlled by TTC, which holds (i) approximately 57.09% of the share capital of Fi. Ind., which holds 95.27% of the share capital of MTS; and (ii) 44.24%[1] of the share capital of Tesmec. Of the share capital of TTC, the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds 18.62%, Tesmec director Lucia Caccia Dominioni holds 18.62%, and Tesmec director Caterina Caccia Dominioni holds 18.62%. In addition: (i) the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds the office of MTS non-executive director; and (ii) Tesmec Vice Chairman Gianluca Bolelli holds the office of TTC director.

In that regard, noted that, although involving Related Parties, in consideration of the market conditions provided by the Sales Agreement and the Services Contract (as better described in Paragraph 2.1 below), the execution of the same would be considered to be within the definition of "*Ordinary Transactions*" provided by Annex 2 of the Related-Party Procedure and, therefore, under Article 10 of the same, it would benefit from the exemption of the application of the related provisions.

However, given that the execution of the Rental Agreement represents a related-party transaction of high significance within the meaning of the Related-Party Regulation and the Related-Party Procedure, the Company considered it advisable to submit the transactions as a whole to the Committee, with a view toward maximum transparency for the benefit of the market and all investors.

With reference to the application of the Procedure, the Issuer, as a "*smaller enterprise*", avails itself of the possibility to apply to transactions the procedure established for related-party transactions of low significance, as provided by Article 10 of the Related-Party Regulation.

The transactions were approved by the Tesmec Board of Directors on 27 October 2017, after receiving the favourable non-binding reasoned opinion of the Related-Party Committee which, in its own conclusions, was supported by the Expert.

[1] Of which about 30.30% is held directly by TTC and about 13.94% held through Fi. Ind.

The Tesmec Board of Directors considers that the transactions are in the Group's interest, that the same do not threaten to prejudice the safety of the business assets, and that all the necessary oversights have been activated to guarantee the substantial and procedural fairness of the transactions and of their related terms and conditions, given the correlations among the contracting parties.

This is because:

- from an entrepreneurial point of view, the transactions have the advantages described in Paragraph 2.3 of this Disclosure Document;
- from an economic point of view, the transactions have the interests better illustrated in Paragraphs 2.4 and 2.5 of this Disclosure Document;
- from a procedural point of view, all the necessary oversights have been activated to render the effect of the correlations existing between the contracting Parties substantially neutral, providing in fact to voluntarily extend the application of the procedure. More specifically:

  (i) the Company has applied to the transactions the rule regarding related-party transactions provided for by the Related-Party Procedure and the Related-Party Regulation;

  (ii) the members of the Related Party Committee have been involved in the negotiations and in the investigative activities concerning the transactions;

  (iii) on 4 August 2017, the Tesmec Board of Directors preliminarily analysed the transactions, acknowledging the Group's intention to develop its activities by participating in carrying out Projects, both using its own fleets and systems and using machinery and systems rented from third parties;

  (iv) the transactions were examined and discussed by the Related-Party Committee on 27 September 2017. On 3 October 2017, the Company, upon request of the Related Party Committee, appointed Professor Alessandro Cortesi, giving him the task of supporting the Related-Party Committee in its assessment with reference to the transactions. More specifically, the Expert was asked to formulate an analysis regarding the fairness of the Rental Fees;

  (v) on 24 October 2017, the Committee met for a preliminary examination of the results of the Expert's analyses;

  (vi) subsequently, the Committee, on 27 October 2017, at the end of an articulated process of evaluation based on complete and adequate information regarding the transactions with regard to the correlations, the main terms and conditions of the transactions, the timings, the reasons underlying the transactions as well as the possible risks to the Company and its subsidiaries, expressed its favourable non-binding reasoned opinion with regard to the Rental Agreement, the Sales Agreement, and the Services Contract, pursuant to the Procedure and based on the voluntary extension of its scope; and

(vii) during its meeting on 27 October 2017, the Tesmec Board of Directors approved the transactions and this Disclosure Document (see subsequent Paragraph 2.8).

This Disclosure Document was sent to Consob and Borsa Italiana and filed at the company headquarters and at its administrative offices pursuant to law, with the procedures indicated in Part III, Title II, Chapter I, of the Issuers' Regulations. A copy of the Disclosure Document is further accessible in the section Investor Relations/Governance/Related-Party Transactions on the Tesmec website *www.tesmec.com*.

1. WARNING

The transactions are between related parties, as MTS and Tesmec are both controlled by TTC, which holds (i) approximately 57.09% of the share capital of Fi. Ind., which holds 95.27% of the share capital of MTS; and (ii) 44.24%[2] of the share capital of Tesmec. Of the share capital of TTC, the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds 18.62%, Tesmec director Lucia Caccia Dominioni holds 18.62%, and Tesmec director Caterina Caccia Dominioni holds 18.62%. In addition: (i) the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds the office of MTS non-executive director; and (ii) Tesmec Vice Chairman Gianluca Bolelli holds the office of TTC director.

In this regard, note that on 27 October 2017, when the Company Board of Directors approved the resolution on transactions, the Chairman and Managing Director Ambrogio Caccia Dominioni abstained pursuant to Article 2391 of the Italian Civil Code and in consideration of his position as non-executive director for MTS, while directors Lucia Caccia Dominioni, Caterina Caccia Dominioni, and Gianluca Bolelli declared their interest in concluding said transactions.

2. INFORMATION RELATING TO THE TRANSACTIONS

2.1. Description of the features, procedures, terms and conditions of the transactions

2.1.1 The reference context and the new business of Tesmec

At a global level, the Energy, Telecom and Oil & Gas sectors, in which the Company operates, are undergoing a very positive stage. This is thanks to a notable increase in projects in the areas of renewable energy, networks and telecommunications (the "**Projects**").

From 2009, the Group business model in the trencher sector has seen another activity develop alongside its traditional business, which is focused on the production of machines destined for sale: this activity represents a very early stage, but growing, of the rental of manufactured machines with or without operators. This activity represented an answer to the needs of Tesmec's clients, allowing them to render variable part of their costs for the realisation of construction works, thus reducing their investments in machines, also in consideration of a market context that is perceived as being extremely volatile.

Since 2015, at the same time as the acquisition of the Marais Group, such tendency saw a further acceleration in the Group's activity, given the relevance of the rental and service supply activities in the revenues of the French subsidiary.

The following table shows the development of the Group's rental activity from the 2013 financial year to the first half of 2017:

Euro/000	2013	2014	2015	2016	June 2017
	Trencher	Trencher	Trencher	Trencher	Trencher
Revenues for sale of products	**52,774**	**48,918**	**68,493**	**51,762**	**33,029**
Revenues for services	**2,887**	**3,876**	**19,997**	**28,809**	**18,248**
of which are revenues for services for rental without operator	2,121	2,738	8,152	5,561	2,026

[2] Of which about 30.30% is held directly by TTC and about 13.94% held through Fi. Ind.

of which are revenues for services for rental with operator/contracting	766	1,138	11,845	23,248	16,222
Revenues for total sector	**55,662**	**52,794**	**88,490**	**80,571**	**51,277**
% rental with operator of total sector revenues	**1.4%**	**2.2%**	**13.4%**	**28.9%**	**31.6%**

Since the second half of 2017, there was a further acceleration of the Group's business opportunities in the sector of the creation of networks, in the areas of the sectors of renewable energy and of telecommunications, as well as the networks related to the Oil & Gas sectors.

The Tesmec Group is now more frequently called to participate in the construction of parts of those works necessary to the implementation of networks, thanks to its range of products developed in the trenchers sector and due to the positive references that the Marais subsidiary has gathered over many years of activity in the sector.

The construction activity of parts of the works of the Projects requires the use of machines and production systems both internal and external to the Group, consisting of:

(a) standard machines requiring limited capex, and having a high level of adaptability regarding usage in various sectors and geographic areas; and

(b) special machines to be used for specific Projects and geographical areas, with high capex levels;

((a) and (b) jointly, the "**Machines**").

Within the Projects, the Tesmec Group companies mainly act as (i) subcontractors arranging the provision of services for the activities of excavation and the inter-connection of varied installations, or (ii) suppliers, making available to the Project Manager their own Machines and the qualified personnel to utilise and maintain them ((i) and (ii) jointly, the "**Project Activities**").

To develop and maintain the Project Activities, the Tesmec Group would need to face large investments to cover the costs of production, stocking and maintenance of the Machines to put such activities into service.

Accordingly, in order not to increase invested capex and to improve the level of flexibility of the structure of its operating costs, the Group has decided to enter into rental contracts with third parties concerning the Machines, for their use for the Project Activities.

2.1.2 Collaboration with MTS

At present, due to their significant complexity, the Machines intended for use in Project Activities based on the Group's new business model are part of an up-and-coming niche market.

MTS has noted that entering this market could be a business opportunity that consists of (i) purchasing Machines useful for carrying out Projects in the energy, networks, and telecommunications sectors; and (ii) subsequently renting them to counterparties interested in using them in these sectors.

Therefore, based on a non-binding favourable opinion of the Committee for Related-Party Transactions, in order to develop Project Activities, the Tesmec Group has reached certain agreements with MTS aimed at governing collaboration with it.

These agreements, the terms and conditions of which are better illustrated below, provide for the conclusion of the Sales Agreement, Services Contract, and Rental Agreement.

(i) **Sales Agreement**

Purpose	MTS will purchase Machines from the Tesmec Group based on a specific, non-binding purchasing program.
Duration	Three years.
Price	Considering the revenues that the purchasing program could generate for the Tesmec Group, MTS was granted best dealer/client status pursuant to the Group's pertinent policy.
Method of performing the contract	MTS will send Tesmec individual purchase orders for certain Machines, based on the provisions of the purchasing program. Once these purchase orders are received, Tesmec will send MTS the relevant offers for the individual Machines that MTS intends to purchase and the relevant quantity. MTS undertakes, at its own expense, to pick up the Machines related to each offer at the Tesmec Group plant indicated.

(ii) **Services Contract**

Purpose	The Tesmec Group will provide MTS, with the power to subcontract, with auxiliary services related to use of the Machines, using its own resources and with organisation at its own risk. These services will consist primarily of start-up, transport, storage, maintenance (with or without guarantee), and repair (with or without guarantee) of the Machines.
Duration and termination	Three years. The parties may renew the contract subject to prior written agreement at least 60 days before the expiration of the contract.
Price	MTS will pay the Tesmec Group for the services based on the rates in the Tesmec Group's price list.
Method of performing the contract	If requested, Tesmec may provide the services for the parties MTS indicates as users of the Machines.
Insurance coverage	For the entire duration of the contract, Tesmec undertakes to take out appropriate insurance policies to protect the interests of MTS and/or users, covering any faults, defects, damages,

	accidents, and risks arising from provision of the services.
Liability	The Tesmec Group assumes all liability to MTS arising from current laws and regulations applicable to the provision of the services, holding MTS harmless from any third-party claims of any kind related to providing the services. For the entire duration of the contract, the Tesmec Group will also be subject to the following liabilities: - liability for any harm to property and/or staff of MTS and/or of users, as applicable, and/or of third parties, in the custody or under the control of Tesmec as a result of providing the services; - liability for any and all damage or theft of equipment and material owned by Tesmec; - liability for any and all damage to its personnel involved in providing the services, even if said personnel has been substituted or rotated.

(iii) Rental Agreement

Purpose	MTS will rent Machines without operator to companies in the Tesmec Group for excavation, construction, and industrial work, based on a specific rental program.
Duration	Three years. Every six months, the Parties will meet to examine and, if necessary, change the rental program, review rental contracts, and in good faith discuss and review the terms and conditions of the agreement.
Rental fee	The Rental Fee is determined based on the price list published by MTS.
Method of performing the contract	MTS and the interested Tesmec Group companies will sign rental contracts for the individual Machines that each Group company intends to rent, including the relative quantity and duration of each rental. The Tesmec Group undertakes, at its own expense, to pick up the Machines subject to each rental contract at the pick-up location MTS indicates.
Insurance coverage	For the entire duration of each rental contract, Tesmec undertakes, at its own expense, to take out an insurance policy according to the terms and conditions detailed in the relevant rental contract.

2.2. Related parties involved in the transactions

The transactions are between related parties, as MTS and Tesmec are both controlled by TTC, which holds (i) approximately 57.09% of the share capital of Fi. Ind., which holds 95.27% of the share capital of MTS; and (ii) 44.24%[3] of the share capital of Tesmec. Of the share capital of TTC, the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds 18.62%, Tesmec director Lucia Caccia Dominioni holds 18.62%, and Tesmec director Caterina Caccia Dominioni holds 18.62%. In addition: (i) the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds the office of MTS non-executive director; and (ii) Tesmec Vice Chairman Gianluca Bolelli holds the office of TTC director.

In this regard, note that on 27 October 2017, when the Company Board of Directors approved the resolution on transactions, the Chairman and Managing Director Ambrogio Caccia Dominioni abstained pursuant to Article 2391 of the Italian Civil Code and in consideration of his position as non-executive director for MTS, while directors Lucia Caccia Dominioni, Caterina Caccia Dominioni, and Gianluca Bolelli declared their interest in concluding said transactions.

2.3. Economic reasons for the transactions and their benefit to the Company

The economic reasons for the transactions and their benefit to the Tesmec Group are based (i) on the Group's interest in developing its business within the Project Activities, considering the very positive phase the Projects are experiencing in the field of renewable energy, networks, and telecommunications; and (ii) on analyses that have demonstrated that outsourcing Project Activities involves less risk than direct investment in Machines.

The possibility of selling the Machines produced to third parties and then, if necessary, entering into rental contracts with these parties for these Machines so that they can be used for Project Activities, is beneficial for the Group because it makes it possible to reduce invested capex and increase flexibility of the costs operating structure.

The change in the Group's business model is in fact based on the main differences between direct investment and outsourcing a service activity.

Specifically, direct investment is characterised by:

(a) capital expenditures increasing invested capital and indebtedness; and
(b) depreciation and interest in the income statement that causes an increase in the fixed costs structure.

On the contrary, outsourcing the rental service:

(a) does not involve capex and thus does not increase the Group's invested capital and indebtedness;
(b) involves rental costs that can be modulated based on duration and effective use of the Machines.

Although outsourcing may be less remunerative than direct investment in terms of individual Projects, overall, outsourcing increases flexibility and decreases the company's risk and financial investment, making it possible to pay a cost for using the Machines only when they are actually being used.

[3] Of which about 30.30% is held directly by TTC and about 13.94% held through Fi. Ind.

For more details on the economic, capital, and financial effects of the transactions, refer to Paragraph 2.5 below.

2.4. Method of determining consideration

2.4.1 Consideration for the Sales Agreement and the Services Contract

Consideration for the Sales Agreement and the Services Contract was determined as follows:

(i) as for the Sales Agreement, it is based on the Group's list prices; also, the Issuer has granted MTS "best client/dealer" status based on the MTS purchasing program and in accordance with the commercial policies of the Tesmec Group;

(ii) as for the Services Contract, it is based on the Group's list prices, including all charges necessary and/or functional to providing the services subject to that contract, and any other additional expenses that may arise while providing them.

2.4.2 Consideration for the Rental Agreement

The parties agreed to structure the consideration for the individual rental contracts concluded in accordance with the Rental Agreement (the "**Rental Fee**") as reported below:

- the Machines may be rented by the day, the week, the month, or longer periods, as there is no minimum rental period;
- the standard rental contract provides a maximum rental period of 6 months, with the power to renew upon expiration. If the term is extended, the Rental Fee for the following period will take into account the months already utilised;
- the Rental Fee for each Machine will vary based on the type of Machine and its features. The price list provides that the Rental Fee decreases proportionally as the individual rental contract is extended. If special equipment options are added to the standard machine, the Rental Fee will vary based on the individual request;
- the Rental Fee in the price list covers Machine use and ordinary maintenance. Additional services which are auxiliary to the individual rental contract (such as storage during stand-by periods, transport to and from the place of use, application consulting, and supply of consumable equipment used for the Machines) will be subject to separate Services Contracts based on the individual request.

At the request of the Related-Party Committee, on 3 October 2017 the Company gave the Expert, Professor Alessandro Cortesi, the task of supporting company bodies in their assessments regarding transactions. More specifically, the Expert was asked to prepare an analysis of the fairness of the Rental Fee in order to verify that it conforms to market conditions.

The Expert was selected based on his proven reliability and professionalism in the area of corporate accounting and finance.

When selecting for the position, the Company considered that the Expert had no economic or financial ties to the Issuer or parent companies, subsidiaries, or companies subject to joint control with Tesmec or its directors, and that he had no permanent collaboration or consulting relationships with them.

On 27 October 2017, the Expert issued his opinion, the essential elements of which are reported in Annex 1.

Below is a summary of the Expert's assessments in determining the fairness of the Rental Fee.

In the Expert's opinion, the fairness of the Rental Fee could theoretically be verified in two ways: (i) by comparing the economic conditions MTS applies to Tesmec with the conditions applied between third party (independent) companies for the same type of transactions; or (ii) by verifying that the economic conditions MTS gives Tesmec are determined so that the lessor is ensured remuneration in line with the market average, with the underlying reasoning borrowed from financial theory and assuming that, if a price is aligned to "market conditions," this is for both the party charging it, MTS, as well as for the party paying it, Tesmec.

Given the absence of a veritable "active market"[4] of rental transactions subject to analysis from which reliable "price lists" can be drawn, I opted to test the fairness of the Rental Fee based on the second methodology, with a subsequent empirical comparison using evidence taken from available lease agreements/proposals between independent parties regarding similar machinery, thus verifying that the rental activity would not provide MTS with either higher or lower returns compared to average returns reported by other sector operators engaging in similar activities.

The model utilised essentially consists of constructing a statement of periodic cash flows expected for each individual initiative of MTS (where "initiative" means the purchase and subsequent rental of each specific Machine), where the unknown factor is represented by the amount of periodic fees, the variables (price of Machines, useful life, residual value, direct and indirect costs), for Tesmec, are known or can be reasonably estimated, and the condition to respect is that the sum of these expected net cash flows, discounted at a rate in line with the weighted average cost of capital (WACC) for the sector, must equal the initial investment.

With regard to the Machines which are already in MTS's possession, for which purchase price, useful life, residual value, maintenance costs, and portion of structure costs attributable to them is already known (or can be estimated), it is possible to determine the amount of the annual fee aligned to "the market."

The model can be applied, *mutatis mutandis*, to all Machines to be rented by means of MTS concluding individual rental contracts in favour of Tesmec.

Therefore, in light of all the above considerations, the Expert feels he can state that the Rental Fees charged to Tesmec based on the model described (already applied to the 17 Machines in MTS's possession) can be considered "at market rate."

[4] "Active market", pursuant to IAS 36, par. 6, means a market where:

a) the items traded within the market are homogenous;

b) willing buyers and sellers can normally be found at any time; and

c) prices are available to the public.

2.5. Explanation of economic and financial effects of the transactions

In the years to come, the Company intends to develop its business within the Project Activities by awarding direct and indirect procurement contracts for excavation work related to the Projects in the field of renewable energy, networks, and telecommunications.

The Company estimates that, from 2017-2019, its business volume could be much greater than what was achieved during 2016 (EUR 28,809,000), for which, pursuant to the Rental Agreement, it must pay rental costs representing about 15% of expected volumes.

The Group's EBITDA generated by Project Activities will at least be in line with the Group's average EBITDA.

2.6. Impact on remuneration to members of the governing body of the Company and/or its subsidiaries

The transactions have no impact on remuneration to directors of Tesmec and/or its subsidiaries.

2.7. Members of the Issuer's governing and control bodies, general managers, and managers who have interests in the transactions

The transactions are between related parties, as MTS and Tesmec are both controlled by TTC, which holds (i) approximately 57.09% of the share capital of Fi. Ind., which holds 95.27% of the share capital of MTS; and (ii) 44.24%[5] of the share capital of Tesmec. Of the share capital of TTC, the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds 18.62%, Tesmec director Lucia Caccia Dominioni holds 18.62%, and Tesmec director Caterina Caccia Dominioni holds 18.62%. In addition: (i) the Chairman and Managing Director of Tesmec, Ambrogio Caccia Dominioni, holds the office of MTS non-executive director; and (ii) Tesmec Vice Chairman Gianluca Bolelli holds the office of TTC director.

In this regard, note that on 27 October 2017, when the Company Board of Directors approved the resolution on transactions, the Chairman and Managing Director Ambrogio Caccia Dominioni abstained pursuant to Article 2391 of the Italian Civil Code and in consideration of his position as non-executive director for MTS, while directors Lucia Caccia Dominioni, Caterina Caccia Dominioni, and Gianluca Bolelli declared their interest in concluding said transactions.

2.8. Bodies or directors which conducted or participated in negotiations and/or initiated and/or approved the transactions

On 4 August 2017, the Company's Board of Directors acknowledged the Group's intention to develop its activities by participating in carrying out Projects, both using its own fleets and systems and using machinery and systems rented from third parties. During these new and broader activities, the Board of Directors also acknowledged the

[5] Of which about 30.30% is held directly by TTC and about 13.94% held through Fi. Ind.

intention to reach certain agreements with the related party MTS, after consulting the Related-Party Committee.

On 27 September 2017, the Related-Party Committee met to analyse the information the Company provided on transactions, reserving the right to investigate further if requested, including with the support of company structures responsible for completing the documents and preparing an opinion on this matter.

At this time, the Committee evaluated the following:

(A) with regard to the company's interest in concluding the transactions and thus concluding the Sales Agreement, Services Contract, and Rental Agreement with MTS, whether the Group had an interest in developing its own business within the Project Activities based on the results of analyses which showed that outsourcing the Project Activities involves less risk than direct investment in Machines; and

(B) with regard to the advantageousness and substantive fairness of the conditions (i) in terms of the Sales Agreement and Services Contract, whether the respective consideration is based on list prices, with discounts based on best dealer/client status granted to MTS in accordance with a pertinent established Group policy; and (ii) with regard to Rental Fees, it decided to grant separate authority to independent directors Gioacchino Attanzio and Sergio Arnoldi, members of the Related-Party Committee, in order to identify, with the assistance of company structures, an expert to support the Committee's assessments of the advantageousness and substantive fairness of the conditions.

As of 27 September 2017, the Related-Party Committee, with the support of the responsible company structures, began its work and investigations so that it could issue a non-binding opinion on the matter.

Accordingly, on 3 October 2017, the Company gave the Expert, Professor Alessandro Cortesi, the task of supporting company bodies in their assessments. More specifically, the Expert was asked to prepare an analysis of the fairness of the Rental Fee in order to verify that it conforms to market conditions.

All contractual terms and conditions regarding the transactions subject to this Disclosure Document were negotiated on behalf of Tesmec by independent directors Gioacchino Attanzio and Sergio Arnoldi.

On 24 October 2017, the Committee met for a preliminary examination of the results of the Expert's analyses.

On 27 October 2017, the Related-Party Committee met and expressed its favourable non-binding opinion regarding the Group's interest in concluding the transactions as well as the advantageousness and substantive fairness of said conditions. A copy of the Related-Party Committee's favourable opinion is attached to this Disclosure Document as Annex 2.

On 27 October 2017, the Board of Directors unanimously resolved to conclude the transactions, with the sole abstention of the Chairman and Managing Director Ambrogio Caccia Dominioni pursuant to Article 2391 of the Italian Civil Code in consideration of his interest in the share capital of TTC, parent company of Fi. Ind., which in turn is parent company of MTS. On that occasion, directors Lucia Caccia Dominioni, Caterina Caccia Dominioni, and Gianluca Bolelli declared their interest in concluding the transactions, for Lucia Caccia Dominioni and Caterina Caccia Dominioni based on their holdings in the share capital of TTC, and for Gianluca Bolelli based on his position as TTC director.

On the same date, the Board of Directors also approved this Disclosure Document.

Pursuant to Article 5 of the Regulation, the opinion of the Committee for Related-Party Transactions, attached as Annex 2, and this Disclosure Document are available on the Company's website at *www.tesmec.com*.

Grassobbio (BG), 2 November 2017

The Board of Directors of Tesmec S.p.A.

ANNEX 1

Alessandro Cortesi

Full Professor of Accounting and Finance

at the Carlo Cattaneo University – LIUC

TECHNICAL REPORT ON THE FAIRNESS OF THE RENTAL CHARGES APPLIED TO TESMEC S.P.A.

Milan, 27 October 2017

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1. PREAMBLE AND MANDATE

Tesmec S.p.A., a company listed in the Milan Stock Exchange (hereinafter referred to as “Tesmec” or as the “Company”), is the parent company of a multinational group (hereinafter referred to as the “Group”) mainly active in the sector of infrastructures related to the transport and distribution of energy. More specifically, the Group deals with the design, production and marketing of products and integrated solutions for the construction, maintenance and streamlining of infrastructures relating to the transport of electricity, data and material.

Since a few years ago, the Company’s business model, formerly revolving around the production of machinery for sale, has been progressively evolving towards an activity of equipment rental of its own machinery with or without operator, especially as regards the trencher category (tracked machines for linear excavation) within the scope of projects linked to the Energy and the Telecom sectors.

This evolution of Tesmec’s business model necessarily entails a progressive tightening of the Company’s assets structure, with a transformation of the current assets into fixed assets due to preservation of ownership of the machines for the purposes of leasing them, as opposed to selling them and cashing the resulting proceeds.

In order to exploit the new business opportunities and fulfil the new sector requirements (concerning projects on the implementation of networks relating to the renewable energies, oil&gas and telecommunications sectors, as specified in the note drawn up by Tesmec’s management mentioned below) and to deal with the tightening of its own structure, the Company is assessing the feasibility of concluding some agreements with MTS – Officine Meccaniche di Precisione S.p.A. (hereinafter referred to as “MTS”), a related party, regarding, among other things, the rental of machinery owned by MTS to Tesmec.

Having said that, and given that Tesmec and MTS are related parties – inasmuch as they are both subject to the control of TTC S.r.l. –, the terms and conditions of the rental agreement under examination must be subject to the regulations governing transactions between related parties, which requires approval of the contract only after a motivated (albeit not binding) opinion by the Related-Party Committee is issued. The Committee will give its opinion on the essential correctness of the terms and conditions stipulated therein.

Within such context, I was asked to put forward an analysis on the fairness of the rental charges without operator of the agreement in question. More specifically, this analysis aims to ascertain whether the rental fees to be paid to MTS by the Tesmec Group are in line with "market conditions".

* * *

This report is structured as follows: § 2 lists the main documentation analysed; § 3 sets out a few preliminary remarks on the method; § 4 describes the methodology used for analysing the "fairness" of rental fees applied by MTS to Tesmec; § 5 presents the findings of the proposed calculation and an example of its application, as well as some operational considerations relating to the specific case and the limitations of the work done; § 6 sets out my conclusions.

2. THE MAIN DOCUMENTATION ANALYSED

In order to discharge my mandate, the following documentation was examined:

- Note drawn up by Tesmec's management on the transaction under examination, submitted to the Related-Party Committee of 27 September 2017, as subsequently amended.
- Circular on transactions with related parties examined during the meeting of Tesmec's Board of Directors held on 4 August 2017, along with supporting documentation.

- Note drawn up by the Chiomenti Law Firm on 3 August 2017 on the conclusion of the agreements between Tesmec and MTS.
- Price list of the machines sold by Tesmec and by Groupe Marais (a company belonging to the Tesmec Group).
- List of the rental fees applied by MTS for the machinery already available.
- Agreements/proposals between independent parties for the rental of machinery similar to the machinery MTS will rent to Tesmec.
- Information on the main macroeconomic and monetary data drawn from specialised databases.
- Information notified to me by the Company's management.

3. PRELIMINARY REMARKS ON THE METHOD

Before going into the merits of the specific analyses carried out, I believe it is necessary to put forward some preliminary remarks to place the methodological choices adopted into context.

From the viewpoint of MTS's customer companies – and, specifically, from that of Tesmec, given its nature as related party –, there are essentially two alternative ways of ascertaining whether the rental fees applied by MTS are in line with "market conditions".

The first alternative, of an "inductive" type, consists in comparing such rental fees with those applied for similar machinery (and for similar periods) by independent operators. Comparing an operation (the one herein examined) with *similar transactions between independent parties* ("*arm's length*"), assuming its feasibility, is generally the preferable alternative (also considering the definition of fair value as laid down in international accounting standards [6]). Such analysis does, however, require

[6] Cf., in particular, IAS 36, § 6: "*Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal*".

the existence of an “active market”[7] of the goods or services dealt with, i.e., of a market where:

a) the items traded within the market are homogeneous;

b) willing buyers and sellers can normally be found at any time; and

c) prices are available to the public[8].

In the present case, the information that I have gathered seems to establish the lack of any “active market” as regards the rental of trencher (or similar) machinery we are dealing with here, as these machines are very specific and with “tailor-made” characteristics that are set from time to time pursuant to private negotiations. Suffice it to think that different configurations of a same machine model might cause changes in its price of hundreds of thousands of Euros. Moreover, even if we leave aside the essential homogeneity of the product/service offered, and assuming we could locate on the market more or less comparable machinery, it would not be easy to work out the rental conditions applied. There are, in fact, no lists available to the public, and offers are formulated on an “ad hoc” basis, client by client, making it quite difficult to trace out the pricing policies. Nevertheless, as explained in greater detail below, I have analysed some agreements/proposals, concerning machinery similar to the one dealt with here, concluded between independent third parties. The rental fees indicated in those documents, which in any case cannot be used as the sole reference for my analysis, have served the useful purpose of providing “empirical” encouragement on the analysis methodology herein adopted and described.

The second alternative, which is considered in the present case – given what we have just remarked – a more feasible route to test the “fairness” of the rental economic conditions, is founded on basic corporate finance rules. From this viewpoint, the rentals are “at market conditions” wherever they enable the lessor to obtain returns in line with the average returns in

[7] Cf. IAS 36, §§ 25 and 26.

[8] Cf. IAS 36, § 6.

the relevant sector, that is, returns which are neither “higher” nor “lower” than those of the other operators on the market. It is worth noting that – based on the available information and the applied financial formula – such analysis is bound to be conducted from the perspective of the lessor, i.e., MTS. Its validity, however, extends to the lessee’s perspective as well, based on the assumption that whenever a rental fee is in line with “market conditions” it is so both for the subject receiving it (MTS) and for the one paying it (Tesmec).

Against the backdrop of such theoretical foundations, the following paragraphs illustrate a simple model by which we can trace out, for each machine, periodical “market” rental fees (i.e., fees capable of remunerating the investments consistently with the sector’s average) ideally applicable to lessees, depending on the characteristics of the specific machine and the rental terms.

4. THE ANALYSIS METHODOLOGY

As already mentioned, the purpose of this analysis is to ascertain whether the rental fees to be paid by Tesmec to MTS are in line with “market conditions”. Thus we need to ascertain whether MTS, through the rental in question, is “higher” or “lower” than the average return obtained by sector operators that undertake similar activities.

In this regard, we can consider the rental of each machine as a specific investment activity producing cash inflows and outflows over time, following an initial payment to purchase the specific asset. In the present case, the initial investment made by MTS to purchase each machine for its subsequent rental represents the amount of invested capital, whereas the rental fees it will obtain – net of the monetary costs associated with the rental – represent the expected periodical cash flows. Likewise, the proceeds from the sale of the asset at the end of its useful life will represent a cash flow for MTS.

Corporate finance theory postulates the existence of a “fair” remuneration of the invested capital (i.e., of the initial cost of a machine) when the sum of the expected net cash flows, discounted at the average rate of return for the sector (average market remuneration), equals the payment initially incurred. In the present case, the rental fees for each machine will remunerate the capital invested “at market conditions” if the net operating cash flows generated by them (including the disposal value of the asset at the end of its useful life), discounted at a discount rate in line with the average cost of capital in the sector (sector’s WACC), equals the purchase price of the machine or, in other words, if the Net Present Value (NPV) of the investment is equal to zero.

The calculation model in question is as follows.

Figure 1 – Calculation model

Input Data	
Price of the machine (EUR)	A
Useful life of the machine	B
Residual value (salvage value - EUR)	C
Tax rate	D
Discount rate (WACC)	E
Direct costs associated with the machine	F
Depreciation	*F'*
Maintenance	*F''*
Indirect costs allocated to the machine	G

Unknown value	
Rental fee	X

Proposed model	Period 0	Period 1	Period 2	...	Period N
Rental fee (X)		X	X	X	X
Direct costs associated with the machine (F)		F	F	F	F
Indirect costs allocated to the machine (G)		G	G	G	G
EBIT (H=X-F-G)		**H**	**H**	**H**	**H**
Taxes (MPD)		I	I	I	I
NOPAT (L=H-I)		**L**	**L**	**L**	**L**
investment – Price of the machine (-A)	-A				
Disinvestment – Salvage value (C)					C
Depreciations (*F'*)		*F'*	*F'*	*F'*	*F'*
Cash flow (M=L+A+C+*F'*)	**M**	**M**	**M**	**M**	**M**
Period of implementation (N)	0	1	2		N

PV cash flow (O=M*[1/(1+E)^N])		**O**	**O**	**O**	**O**	**O**
Investment NPV	$\sum_{i=1}^{N} O_i = 0$					

The above model shows that, if (i) the amount of the initial investment (price of the machine), (ii) its useful life, (iii) its residual value at the end of the rental period, (iv) the direct and indirect costs associated with the rental, and (v) the average rate of return for the sector are known to, or reasonably foreseeable by, Tesmec, the model's unknown value consists in the regular rental fees applied to customers (which in this specific case are presumed to be of equal amount for each period of use).

4.1 The model inputs

Having explained the calculation model in the previous paragraph, in the following section we briefly describe the model's input data.

- **Price of the machine:** it is the price MTS pays to suppliers (including Tesmec) for purchasing machines with a view to subsequently renting them without operator. The prices applied by Tesmec should be considered "at market conditions" since they are based on an official price list, also having regard to the "best dealer" discount.
  Tesmec precisely knows such inputs in respect of machines sold by the Company to MTS. As regards, on the other hand, machines sold to MTS by other operators, Tesmec is in any event capable of estimating their purchase price based on its experience.
- **Useful life of the machine:** it is the period during which the machine is rented and used prior to disposal. It also represents the period during which the machine is depreciated. The Tesmec Group management is of the view that, based on the experience gained, it would be reasonable to expect each machine to be rented for five years, after which it will be disposed of.
- **Residual value:** it is the value of the machine at the end of its useful life. It represents the price the machine is estimated to be sold for at the

end of the rental period. The Tesmec Group management considers it reasonable, based on the experience gained, to estimate a residual value of 25% of the initial purchase price of the machine.

- **Tax rate:** it consists in the sum of the IRES (corporate income tax) and IRAP (regional tax) rates.
- **Direct costs associated with the machine:** these essentially consist in the depreciations (at a constant rate, based on the useful life of the asset, and having regard to the depreciable amount equal to the price of the asset net of its residual value) and in the maintenance works (estimated at an annual percentage depending on the initial price of the asset).
- **Indirect costs allocated to the machine:** these are MTS's structure costs associated with the rental activity. Such costs consist in MTS's "incremental" fixed costs (compared to those incurred for its traditional activities) that will be necessary by the start of the rental activity in question[9].
- **Discount rate:** it consists in the weighted average cost of the equity capital (K_e) and the return on debt (K_d), and expresses the fair remuneration of the net operating working capital invested in the initiative, depending on the financial structure choices.

The calculation formula is the following:

$$WACC = K_e \cdot \frac{E}{D+E} + K_d \cdot (1-t) \cdot \frac{D}{D+E}$$

Where:

- K_e is the cost of the equity;
- K_d is the cost of the return on debt;
- *E/(D+E)* e *D/(D+E)* are, respectively, the weights of the equity capital and the return on debt on the total funding sources;
- *t* is the tax rate relevant to financial charges.

[9] This value essentially reflects the "standard" personnel cost of an employee tasked with developing the rental activity.

The cost of the equity capital (**K_e**), representing the fair remuneration of the risk capital associated with the transaction, is quantified in accordance with the CAPM (Capital Asset Pricing Model) approach, based on the following algorithm:

$K_e = r_f + \beta \cdot ERP$

Where:

- r_f is the risk-free rate;
- *Beta* is the systematic risk coefficient;
- *ERP* (Equity risk premium) is the premium for the typical risk of equity investments and expresses the higher return demanded from the employment of equity capital in stock markets compared to the employment of risk-free capital.

The following table sets out the relevant parameters for calculating the WACC, which, in this case, amounts to 6.8%.

Table 1 – Parameters used in estimating the WACC

		Reference data	Comments
Ke	Risk free rate	2.1%	1 month average Italian ten-year government bonds (Source: FactSet)
Ke	Equity risk premium	5.5%	1 year average prospective ERP (Source: Stem School of Business, Damodaran;
Ke	Unlevered Beta	0.90	Average of beta unlevered 2 years daily (Source: Facset)
Ke	Assumed target D/E	39.3%	Average of D/E of comparables (Source: Facset)
Ke	Assumed target D/(D+E)	28.2%	Average of D/(D+E) of comparables (Source: Facset)
Ke	Levered Beta	1.17	Levered Beta = Unlevered Beta * (1+(1-Tax rate)*(D/E))
Ke	Cost of Equity	**8.5%**	**Ke = Rf+ERP * Beta**
Kd	Cost of Debt	3.0%	Gross market Kd
Kd	Tax rate	24.0%	IRES tax rate
Kd	Post-tax Cost of Debt	**2.3%**	**Net Kd = Gross Kd * (1-Tax rate)**

WACC	6,80/0	WACC = Ke * E/(D+E) + Net Kd * D/(D+E)

In this regard, the following is worth noting:

(i) the risk-free rate, 2.1%, is assumed to be equal to the average of daily yields, gross of taxes, recorded in the last month[10], of Italian government securities with a residual duration of ten years[11];

(ii) the ERP, amounting to 5.5%, corresponds to the average of the last twelve monthly records of the latest forward-looking ERP drawn from the empirical researches generated by the Stern School of Business (Damodaran)[12];

(iii) the *Beta coefficient*, equal to 1.17, is estimated on the basis of an average financial structure in the sector and derived from a panel of listed companies (Caterpillar Inc., Komatsu Ltd., Deere & Company and Hitachi Construction Machinery Co. Ltd);

(iv) the financial structure used in the model has been estimated by reference to the average indebtedness of comparable listed companies, equal to 39.3%;

(v) the cost of the return on debt (K_d) before the tax effect, equal to 3%, has been estimated considering the average rates applied to current long-term financing by the Tesmec Group;

(vi) the tax rate is 24%, equal to the tax rate (IRES) in force in Italy since 2017.ENG

4.2 Cash flows and net present value of investments

On the basis of the inputs described above that, as previously stated, appear to be acknowledgeable or reasonably appraisable by Tesmec, it is possible to construct the cash flow statement for each MTS initiative,

[10] Reference date: 20 October 2017.
[11] Source: Factset database.
[12] The monthly records of the forward-looking ERP examined relate to the October 2016-September 2017 period.

where “initiative” means the acquisition and subsequent rental of each specific machine.
Fees for rental (“without operator”) of machinery (which make up the unknown value of the model) represent the periodic revenues for MTS. The direct and indirect costs associated with each machine shall be deducted from the periodic revenues in order to obtain the relevant operating results (Ebit) for the period. Taxes shall be deducted from the results thus obtained to determine the Net operating income (Nopat) achieved by renting the machine.
Prospective cash flows are obtained by adding to the Nopat the non-monetary costs (depreciations) and – only for the last period considered – the salvage value of the machinery. These cash flows are discounted using the WACC discount rate described above, and added to the initial cash flow (at period 0), which has a negative sign for MTS and corresponds to the purchase price of the machine. The result of the above sum must be zero.

4.3 The unknown value of the model

As mentioned above, the unknown value of the model is the periodic fees charged to the lessees (supposedly, as previously said, for a constant amount during the useful life of the assets). These are calculated by inserting all inputs of the model, assuming that for each machine the sum of the expected cash flows and the initial investment is zero.
The interpretation of the model suggests that if the rental fees applied by MTS were higher than those calculated using the methodology on hand, these would allow MTS to achieve a higher return than the average return of the market. On the contrary, if the rental fees were lower than those resulting from the application of the model, MTS would obtain a lower return from the invested capital for the purchase of each machine compared to that of a “fair” market return.

5. PRACTICAL APPLICATION OF THE MODEL

An example of the method of calculation used above is given below regarding the machine [*omitted – the relevant commercial information is omitted to protect the company's goodwill*]. This application example can be extended to any other machine, obviously when the various input data are known.

The machine [omitted] is one of the 17 machines available to MTS. As already stated, the main input data are, for Tesmec, known or reasonably assessable.

Figure 2 – Example of model application to the machine [omitted]

[omitted]

With regard to the proposed example, the following considerations can be made:

- The price of the machine, equal to [omitted], is in line with market values and takes into account the best dealer discount that MTS has used.
- The machine's useful life is 5 years.
- The residual value at which the machinery is sold at the end of its useful life has been assumed to be 25% of the initial cost, in line with the empirical feedback by Tesmec.
- Among the direct costs, annual routine maintenance was assumed to be equal to 2% of the machine cost, in line with the empirical feedback by Tesmec.
- The amount of indirect incremental costs that MTS shall pay to rent the machinery has been estimated by Tesmec's management in [omitted] annually. This value was allocated to the machinery under consideration by applying a coefficient calculated as the ratio between the machine price and the total investment in machinery made by MTS ([omitted]). The absolute value of this cost was replicated in subsequent years.

- The discounting process conventionally assumed that the rental fees are perceived in the middle of each year, save for the cash flow resulting from the sale of machinery (forecasted for the end of the fifth year).
- The annual fee resulting from the model ([omitted]) represents the annual rental fee that MTS should earn in order to obtain a remuneration in line with the average capital cost for the sector.

5.1 From annual rental fee to interim rental fee

In the example, we were able to estimate the rental cost of the machine [omitted] on an annual basis, also considering that the machine in question is rented approximately six months per year, as stated by the Tesmec Group management. The average annual usage is assumed from the experience of the company and I had no specific third-party feedback (given the uniqueness of the machinery in question) in this regard.

Therefore, wanting to calculate a monthly average rental fee based on the annual fee, the latter must be divided by the forecasted months of rental of the machinery (6 months). In order to calculate a daily average rental fee, the annual fee must be divided by the forecasted days the machinery is rented (24 days for 6 months, or 144 days).

We cannot exclude, however, that in reality the daily rental fee may prove to be higher – than the average cost – for short rental periods (one or few days) and lower for long periods (a few months), assuming that the sum of all the rental fees during the year is equal to the annual rental fee as set out above.

5.2 Rental fees for machinery already owned by MTS

According to the aforementioned model, I replicated the rental fee calculation for all 17 machines already available to MTS.
The results obtained are shown in the following table.

Table 2 – Fees calculated for 17 machines already available to MTS[13]

[omitted]

A comparison between monthly and daily rental fees calculated by applying the aforesaid model and the monthly rental fees on the list of MTS resulted in consistent figures.

Table 2 shows that the sum of the annual fees of the 17 machines involved ([omitted]) is equal to approximately [omitted]% of the total price of the [omitted]. Consequently, for a given investment by the lessor (for the purchase of machinery), the sum of the annual rental fees to be charged to the lessees and related to the aforesaid machinery corresponds, if the charges are aligned to "market conditions", to about [*omitted*] % of this investment. Therefore, I compared the value of the machines that will be available to MTS in the years 2018 and 2019 (as listed in the capex detail by type of machine expected to date will be used in the "project activities"[14]) with the total rental cost (for the same machinery) as provided for in the Tesmec plan in the same two-year period, verifying that (for both years) the latter (Tesmec's rental cost) corresponds to [omitted]% of the former (machinery value in MTS). On the basis of these considerations and with regard to MTS's investment hypothesis, it appears that the cost of the fees charged for the Tesmec plan for 2018 and 2019 is also in line with the "market conditions" as mentioned above.

5.3 Market findings

As mentioned in § 3, even though there is no real "active market" regarding the rental of the machinery in question, for certain specific models I was able to compare the rental fee calculated using the method described in the previous paragraphs with the rental fees arising from some agreements/proposals involving independent third parties.

[13] [omitted]

[14] Cf. Note drawn up by Tesmec's management on the transaction under examination, submitted to the Related-Party Committee of 27 September 2017, as subsequently amended.

These "market" findings, to be used with due care (as the machinery is not entirely homogeneous), support the results of the model in question, as can be seen in the following table.

Table 3 – "Market" findings[15]

[omitted]

In particular, it appears from the comparison made that the rental fees negotiated between the independent third parties for machine models comparable to those that MTS shall rent to Tesmec appear to be in line with, or prevalently higher than, the rental fees resulting from the application of the model.

5.4 Limits to the work done

This analysis was carried out relying on the truthfulness, correctness, accuracy and completeness of all the information provided by the company's management. In particular, all product information, rental term estimates, purchase and sale values, useful life of the assets, estimates related to the operating costs of the rental activities concerned, and the assumptions of comparability between the ongoing economic conditions between Tesmec and MTS and the agreements/proposals between independent parties were communicated by Tesmec's management alone, and I have not obtained information on my own.

[15] As for the Model 885, the considerations set out under footnote 8 shall apply.

6. CONCLUSIONS

As a result of the analyses conducted, the following summary conclusions can be made:

- the signing of an agreement between Tesmec and MTS (related parties) for the rent by the former of machinery owned by the latter, requires the Tesmec Related-Party Committee to submit an opinion on the "fairness" of the rental fees to be charged to the Company. In particular, it must be verified that these fees are in line with "market conditions".
- This verification can be theoretically conducted in two ways: (i) by comparing the economic conditions applied by MTS to Tesmec with the conditions applied by (independent) third-party companies for the same type of transactions; or (ii) by verifying that the economic terms applied by MTS to Tesmec are determined in a way that assures the lessor a consideration in line with that of the market average value, while respecting the underlying logics borrowed from financial theory and asserting that if a price is in line with "market conditions", this applies for both the lessor (MTS) and the lessee (Tesmec).
- Given the lack of a real "active market" for the underlying rental transactions, from which reliable "average price lists" can be obtained, the "fairness" test of the rental terms was made on the basis of the second methodology, with subsequent empirical approach based on evidence found in rental agreements/proposals for similar machineries entered into between independent parties and which were disclosed.
- Given this approach, it was necessary to verify that MTS, through the rental activities, did not "over-perform" nor "under-perform" compared to the average performance recorded by other operators in the sector carrying out similar activities.

- The model used to verify the above essentially consists of building a prospectus of expected periodical cash flows for each MTS initiative (whereby “initiative” means the purchase and subsequent rental of each specific machine) where the unknown value is represented by the amount of periodic rental fees, the variables (machine prices, useful life, residual value, direct and indirect costs) appear to be known or reasonably assessable by Tesmec, and the condition to be met is that the sum of these expected net cash flows – discounted at a discount rate in line with average capital cost for the sector (sector’s WACC) – equals the initial investment.
- With regard to machinery already available to MTS – for which the purchase price, useful life, residual value, maintenance costs, part of the relevant allocable structure costs are known (or can be estimated) – it is possible to determine the annual rental fee in line with the “market value”.
- The model can be applied, after having made the necessary changes, to all machines that shall be rented by MTS to Tesmec.
- Some findings on the market, although not sufficient to make generalisations, seem to exclude the application by MTS of rental fees exceeding current “market conditions”.

Therefore, in light of the aforementioned conclusions, in my opinion the rental fees charged to Tesmec, calculated on the basis of the model described (already applied to the 17 machines available to MTS), correspond to fees applied on the “market”.

27 October 2017

Professor Alessandro Cortesi

ANNEX 2

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

Grassobbio (BG), 27 October 2017

Re: **Opinion of the Related-Party Committee pursuant to Consob Regulation No. 17221 of 12 March 2010, as amended and supplemented, and the procedure for regulating Related-Party Transactions approved by the Board of Directors of Tesmec S.p.A. ("Tesmec" or the "Company")**

The undersigned Related-Party Committee (hereinafter, the "**Committee**"), at the meeting held on 27 October 2017, with all its members in attendance (in the person of Chairman Sergio Arnoldi and Directors Gioacchino Attanzio and Gianluca Bolelli) was convened in order to:

- discuss the transactions concerned with the execution of three agreements by Tesmec with related party MTS – Officine Meccaniche di Precisione S.p.A. ("**MTS**"), namely:
  - (i) a Sales Agreement (the "**Sales Agreement**") for the sale by Tesmec to MTS S.p.A. of some machineries manufactured by the group controlled by Tesmec (the "**Group**" or the "**Tesmec Group**");
  - (ii) an agreement for the supply by the Tesmec Group to MTS and, in general, to the users of the new machineries of its range of logistical and maintenance services (freight, maintenance, warranty- and non-warranty claims, custody, repair, etc.) (the "**Services Contract**");
  - (iii) an agreement for the rental by MTS to the Tesmec Group of some machineries owned by MTS (the "**Rental Agreement**"); and
- express the Committee's opinion on the Group's interest in implementing the aforementioned transactions, as well as on the convenience and substantial fairness of the corresponding conditions, pursuant to Consob Regulation No. 17221 of 12 March 2010 (as amended and supplemented) (the "**Related-Party Regulation**") and to the procedure regulating Tesmec's Related-Party Transactions (the "**Related-Party Procedure**").

The transactions amount to related-party transactions since MTS and Tesmec are both companies that are subject to the control by TTC, which holds (i) a 57.09% interest in the share capital of Fi. Ind., which, in turn, holds a 95.27% interest in MTS's share capital, and (ii) a 44.24%[16] interest in Tesmec's share capital. 18.62% of TTC's share capital is held by Tesmec's Chairman and Chief Executive Officer, Mr. Ambrogio Caccia Dominioni, while 18.62% is held by Tesmec's Director, Ms. Lucia Caccia Dominioni and 18.62% by Tesmec's Director, Ms. Caterina Caccia Dominioni. Moreover, it should be noted that (i) Tesmec's Chairman and Chief Executive Officer, Mr. Ambrogio Caccia Dominioni, is also

[16] Of which, approximately 30.30% is held directly by TTC and approximately 13.94% is held through Fi. Ind.

a non-executive director for MTS and (ii) Tesmec's Vice-Chairman, Mr. Gianluca Bolelli, is also a director for TTC.

Even if Related Parties are involved, in light of the market conditions set out in the Sales Agreement and in the Services Contract, execution of such agreements would fall under the definition of "*Ordinary Transactions*" provided by Schedule 2 of the Related-Party Procedure and, therefore, pursuant to Art. 10 of the Procedure, the corresponding provisions would not apply. However, since the execution of the Rental Agreement amounts to a more important transaction with related party pursuant to the Related-Party Regulation and the Related-Party Procedure, the Company has deemed appropriate to present to the Committee the transactions as a whole, in order to pursue the highest possible degree of transparency to the benefit of the market and all investors.

The Issuer, as "smaller company", can apply to the transactions the procedure established for Related-Party Transactions of lesser importance, as set out by Art. 10 of the Related-Party Regulation.

On 3 October 2017, the Company, upon request of the Related-Party Committee, assigned to Professor Alessandro Cortesi (the "**Expert**") the task to support the Related-Party Committee in its assessment of the transactions. More specifically, the Expert was requested to review and comment on the fairness of the consideration set out in the Rental Agreement (the "**Rental Fees**") in order to verify that they meet market conditions.

Considerations on the financial and strategic reasons, and on the method for determining the consideration for the transactions

Globally, the Energy, Telecom and Oil&Gas sectors in which the Company operates are currently experiencing a very positive trend, thanks to the significant increase in the number of projects concerning renewable energies, networks and telecommunications (the "**Projects**").

In order to implement part of the works indicated in the Projects, the Group's machines and production systems are necessary (the "**Machines**").

Under the Projects, the Tesmec Group companies act mainly as (i) sub-contractors, since they provide services, and carry out digging and inter-connection operations between the various plants, or as (ii) suppliers, by making available to the person in charge of the Project its own Machines and personnel trained for the use and maintenance of the machines ((i) and (ii), jointly, the "**Project Activities**").

With a view to develop and preserve the Project Activities, Tesmec Group would be expected to make significant investments to cover the costs for the manufacture, storage and maintenance of the Machines to be used for such activities. Conversely, after identifying a market opportunity at the start-up level, MTS has developed its own business in order to carry out activities for (i) the purchase of Machines useful for the implementation of the Projects in the energy, networks and telecommunication sectors, and (ii) subsequent rental of the Machines to those counterparties that are interested in using them in the aforementioned sectors.

The financial reasons and the advantage for the Tesmec Group to carry out the transactions can be summarised in (i) the Company's interest to develop its own business in the context of the Project Activities, in light of the very positive trend that Projects in the areas of renewable energies, networks and telecommunications are experiencing, and (ii) the circumstance that research have shown that the outsourcing of the Project Activities involves a lesser risk compared to a direct investment in Machines.

The possibility to sell the Machines produced to third parties and then, at a later stage, if needed, to execute rental agreements for the Machines with such third parties, for purposes of using the Machines in relation to the Project Activities, is convenient for the Group because it allows to reduce the capex invested and to increase the flexibility of the operational cost structure.

The Group's business model change stems from the main differences between direct investment and outsourcing of service activities.

More specifically, direct investment is characterised by:

(c) capital expenditures which increase the fixed capital invested and indebtedness; and
(d) amortizations/depreciations and interests to profit or loss which determine an increase in the operational costs' structure.

Conversely, the outsourcing of the rental service:

(c) does not require a capex and therefore does not increase the fixed capital invested and the Group's indebtedness;
(d) generates rental costs that may be modulated according to the duration and the actual uses of the Machines.

Even though on a single Project outsourcing may be less remunerative than direct investment, on the whole outsourcing increases the level of flexibility and decreases both the risk and the financial investment for a company, and allows to pay only for the actual use of the Machines.

* * *

Consideration for the Sales Agreement and the Services Contract have been identified as follows:

(iii) with reference to the Sales Agreement, on the basis of the Group's price list;

(iv) with reference to the Services Contract, on the basis of the Group's price list, including all the expenses that are necessary and/or functional to the supply of the services specified in such agreement, and any other ancillary expense that may be incurred in the supply of such services.

Rental Fees have been structured as follows:

- the Machines may be rented for a day, a week, a month or for longer periods, with no minimum rental period;

- the standard rental agreement provides for a maximum rental period of 6 months, with the possibility to renew the agreement at the end of the term. In case of extension, the Rental Fee for the following period will take into account the months in which the Machines have already been used;

- the Rental Fee for each Machine shall vary according to the type of Machine and to its features. The price list indicates that the Rental Fee will decrease proportionally upon extension of the single rental agreement. If special features are requested to be added to the standard machine, the Rental Fee will vary according to the specific request;

- the Rental Fee set out in the price list covers the use of the Machine and ordinary maintenance. Any additional or ancillary service to the specific rental agreement (such as storage in stand by periods, transport of the machines from and to the venue of use, any advisory services on the use of the machines, the supply of consumable equipment to be used in conjunction with the Machines) will be regulated by separate Services Contracts, depending on the specific request.

With regard to the fairness of the Rental Fee, the Expert has indicated that such review may, theoretically, be conducted following two different approaches: (i) by comparing the financial conditions applied by MTS to Tesmec to the conditions applied by (independent) third party companies for the same type of transaction; or (ii) by verifying that the financial conditions applied by MTS to Tesmec are determined in a manner that ensures to the lessor a remuneration that is consistent with the average market remuneration, in application of principles of financial theory and based on the assumption that if a price is consistent with "market conditions" such consistency exists both for the lessor, namely MTS, and for the lessee, namely Tesmec.

Given the absence of a real "active market"[17] concerning the rental transactions at issue, from which reliable average "price lists" could be drawn, in order to test the fairness of the Rental Fee according to the second method, it was decided to rely on an empirical examination based on evidence drawn from rental agreements/proposals for similar machines executed between independent parties and that that have been made accessible, which showed that MTS, through the rental activity, was neither "over-performing" nor "under-performing" compared to other profits recorded on the average by other subject operating in the sectors and performing similar activities.

The model adopted calls for creation of a statement of the recurrent cash flows that are expected for each specific initiative of MTS (where "initiative" means the purchase and subsequent rental of each Machine), where the unknown value is represented by the amount of the recurrent rental fees, while the variable elements (the price of the Machines, their useful life, residual value, direct and indirect costs) appear to be, for Tesmec, knowable or reasonably assessable and the condition to be met is that the sum of such expected net cash discounted according to a discount rate that is consistent with the cost of the average capital of the sector (the sector's WACC) – is equal to the initial investment.

With regard to the Machines that are already available to MTS – with regard to which the purchase price, useful life, residual value, maintenance costs, the share of the structural costs are all known or can anyway be estimated – it is possible to calculate the amount of the annual rental fee that is consistent with "market conditions".

The model can be applied, *mutatis mutandis*, to all the Machines that will be rented through the execution of specific rental agreements by MTS to Tesmec.

Therefore, in light of the foregoing reasons, the Expert was able to confirm that the Rental Fees charged to Tesmec and calculated on the basis of the aforementioned

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"Active market", pursuant to IAS 36, par. 6, means a market where:

a) the items traded within the market are homogenous;

b) willing buyers and sellers can normally be found at any time; and

c) prices are available to the public.

model (already applied to the 17 Machines available to MTS) can be considered consistent with “market conditions”.

* * *

Finally, from a procedural standpoint, the Committee would like to point out that the Company has set up the necessary control mechanisms to ensure the correct qualification of the transactions and the corresponding application to the transactions of the relevant provisions of the Related-Party Procedure and the Related-Party Regulation. Furthermore, in compliance with the Related-Party Procedure, Tesmec has guaranteed to the Committee suitable information flows and supply of documents, an adequate level of dialogue with the Company’s management, as well as a substantive involvement during the negotiation, with a view to facilitate assessment of the transactions by the Committee.

The Committee, after reviewing the terms and conditions of the transactions, and as a result of the investigations conducted and the information received during the investigation, and after examining the assessment of the Expert, deems it appropriate to share the opinion of the Board of Directors on the Group’s interest to pursue the transactions and, with regard to the convenience and substantial fairness of the conditions, this Committee expresses a positive opinion on the convenience and substantial fairness of the terms and conditions of the transactions.

Conclusions

In light of the foregoing, and on the basis of the aforementioned reasons, the Committee, with Mr. Gianluca Bolelli abstaining, expresses its

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with regard to the Group’s interest in the implementation of the transactions, as well as on the convenience and substantial fairness of the corresponding conditions.

On behalf of the Related-Party Committee

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(The Chairman, Mr. Sergio Arnoldi)