



TESMEC S.P.A.
SHAREHOLDERS' ORDINARY MEETING OF 16 APRIL 2019
IN SINGLE CALL
DIRECTORS' REPORT
ON THE DRAFT RESOLUTIONS SUBMITTED TO THE MEETING

Report of the Board of Directors of Tesmec S.p.A., drawn up pursuant to Articles 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 (“TUF”), and 84-ter of the Regulation adopted with Consob Resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented (“Issuers’ Regulation”).

Dear Shareholders,

This report shows the draft resolutions that the Board of Directors of Tesmec S.p.A. (hereinafter referred to as “**Tesmec**” or the “**Company**”) intends to submit for your approval in relation to the points on the agenda of the ordinary shareholders’ meeting that will be held on 16 April 2019, 14:30 pm, in single call at Tesmec headquarters in Via Zanica 17/O, Grassobbio (BG).

1. Presentation of the Tesmec Group’s consolidated financial statements and review and approval of the financial statements as at 31 December 2018 and relevant reports, including the Consolidated Non-Financial Statement; allocation of result for the period; related and consequent resolutions.

Dear Shareholders,

The Company, within the term established by Article 154-ter of the TUF, must publish the annual financial statements comprising the draft financial statements, the consolidated financial statements, the directors’ report (which includes the Consolidated Non-Financial Statement containing information, referred to Tesmec and its subsidiaries, relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters) and the certification set forth in Article 154-bis, paragraph 5, of the TUF. The audit reports prepared by the independent auditors as well as the reports indicated in Article 153 of the TUF are made fully available to the public together with the annual financial statements.

The draft financial statements were approved by the Board of Directors of the Company on 5 March 2019.

The directors’ report will be made available to the public, together with the draft financial statements of Tesmec as at 31 December 2018 the consolidated financial statements of the Tesmec Group as at 31 December 2018, the certification of the Manager responsible for preparing the Company’s financial reports, the report of the Board of Statutory Auditors and the Independent Auditors’ Report, at the registered office and Borsa Italiana S.p.A. (“**Borsa Italiana**”), as well as on the website of the Company: www.tesmec.com and in accordance with to the other modalities prescribed by Consob within the terms provided by the regulations in force.

For a complete information on the subject in hand, reference is made to the Directors’ report and to the additional documents made available to the public, within the timeframe prescribed by the law, at the registered office and Borsa Italiana, as well as on the website www.tesmec.com (Investors) and in accordance with to the other modalities prescribed by Consob.

You are invited to approve the financial statements as at 31 December 2018 of Tesmec that ended with a profit of Euro 4,330,954.95.

With reference to the results achieved, the Board of Directors proposes that you resolve to:

- assign the profit for the year of Euro 4,330,954.95 to the extraordinary reserve.

2. Consultation on the first section of report on remuneration pursuant to Article 123-ter paragraph 6 of Italian Legislative Decree no. 58/1998.

Dear Shareholders,

In relation to second point on the agenda, the Board of Directors intends to submit to the Shareholders' Meeting the report on remuneration of the members of the boards of directors, of general managers and of other executives with strategic responsibilities, pursuant to Articles 123-ter of the TUF and 84-quarter of the Issuers' Regulation (the "**Report on Remuneration**").

The Report on Remuneration was prepared in compliance with Annex 3A, Diagrams 7-bis and 7-ter, of the Issuers' Regulation and consists of two sections. The first section of the Report on Remuneration (i) shows the policy of the Company concerning the remuneration of the members of the boards of directors, of general managers and of executives with strategic responsibilities with reference at least to the following financial year and (ii) shows the procedures used for the adoption and implementation of this policy. The second section of the Report on Remuneration: (i) provides an adequate representation of each of the items forming the remuneration, including the salaries contemplated in case of termination of office or termination of the employment relationship, pointing out its consistency with the policy of the Company on remuneration approved in the previous financial year; (ii) shows in detail the remuneration paid during the financial period under review.

Pursuant to Article 123-ter, paragraph 6, of the TUF, the Shareholders' Meeting is required to express, with non-binding resolution, an opinion in favour or against the first section of the Report on Remuneration.

In this regard, reference is made to what is shown in the report drawn up pursuant to Articles 123-ter of the TUF and 84-quarter of the Issuers' Regulation, which will be filed within the terms provided by the regulations in force at the registered office, Borsa Italiana, as well as made available to the public on the website of the Company www.tesmec.com and in accordance with to the other modalities prescribed by Consob.

3. Proposal of authorisation to purchase and dispose of treasury shares, subject to the withdrawal of the resolution passed by the Shareholder's Meeting of 6 April 2018 related and consequent resolutions.

Dear Shareholders,

with reference to the third point on the agenda, this section of this report, prepared pursuant to Article 73 of the Issuers' Regulation, shows the proposal for authorisation to purchase and dispose of treasury shares, subject to the prior revocation of the resolution passed by the Shareholder's Meeting of 6 April 2018, that the Board of Directors of Tesmec intends to submit to your approval.

Please note that the aforementioned Shareholders' Meeting of April 6, 2018 authorized the Board of Directors to purchase and dispose of treasury shares, also through subsidiaries, for a maximum number of ordinary shares of the Company, having a par value of 0.10 Euro each, equal to 10% of the *pro tempore* share capital within the limits and for the purposes provided by law and market practices, one or more times, within a maximum period of eighteen months from the date of the resolution by the Shareholders' Meeting; the purchases were to be made at a price that did not deviate by more than 10% down and up from the reference price recorded by the security in the trading session preceding each transaction. The maximum number of treasury shares that were purchasable on a daily basis was not to be higher than 25% of the average daily volume of Tesmec shares traded on the market.

Hereinafter are exposed the reasons and modalities for the purchase and disposal of the treasury shares of the Company in accordance to which the Board of Directors proposes to the shareholders to resolve the new authorization.

Reasons for the proposal for authorisation to purchase treasury shares

The request for authorisation to purchase and dispose of treasury shares, subject-matter of the proposal for authorisation to be submitted to the Ordinary Shareholders' Meeting, aims at providing the Company with a useful strategic investment opportunity for any purpose allowed by the national laws and EU regulations, including the purposes contemplated in the "market practices" allowed time to time in force.

In particular, the Board of Directors considers it useful that the authorisation to purchase and dispose of treasury shares, also through subsidiaries, be granted to pursue the following aims:

- a. offer incentives to and develop loyalty of employees (including any category that, by the same standard as the law, in force each time, is treated as equivalent), collaborators, directors of the Company and/or of companies controlled by it and/or other categories of subjects (such as one-firm agents or otherwise) chosen at the discretion of the Board of Directors, as deemed appropriate each time by the Company;
- b. fulfil any obligation arising from debt instruments convertible into/or exchangeable with equity instruments;
- c. carry out sales, exchanges, swaps, capital contributions or other disposals of treasury shares for acquisitions of shareholdings and/or real estate and/or the conclusion of agreements (trade agreements or otherwise) with strategic partners, and/or for the implementation of industrial projects or Merger & Acquisition operations, which fall within the objectives of expansion of the Company and the Tesmec Group;
- d. carry out subsequent purchases and sales of shares, within the limitation allowed by the market practices approved, including operations to support the liquidity of the market;

- e. in order to purchase treasury shares owned by employees of the Company or subsidiaries and assigned or subscribed pursuant to Articles 2349 or 2441, paragraph eight of the Italian Civil Code or originating from incentive plans approved pursuant to Article 114-*bis* of the TUF;
- f. seize market opportunities also through the purchase and resale of shares whenever appropriate both on the market (as regards conveyance) in the so-called over-the-counter markets or even outside the market provided at market conditions.

Maximum number of shares of the proposal for authorisation

The authorisation refers to the purchase, also through subsidiaries, in one or more times, of ordinary treasury shares with a par value Euro 0.10 each, up to 10% of the *pro tempore* share capital of the Company, taking into account the treasury shares held by the Company and the its controlled subsidiaries. Purchases will be made within the limits of the distributable profits and of the available reserves resulting from the last financial statements approved by the Company or by the subsidiary making a purchase.

The authorisation also includes the right to dispose later (in whole or in part and also in several times) of the shares held in portfolio, also before having reached the maximum amount of shares purchasable and eventually to repurchase the shares to the extent that the treasury shares held by the Company and, if necessary, by its controlled subsidiaries, do not exceed the limit established by the authorisation.

Further useful information for the assessment of compliance with Article 2357, paragraph 3, of the Italian Civil Code

At the date of this report, the share capital of the Company is represented by 107,084,000 ordinary shares having a par value of Euro 0.10, for a total value of Euro 10,708,400 fully subscribed and paid-up. At the date of this report, the Company holds no. 4,711,879 treasury shares taking into account also the shares held by its controlled subsidiaries.

As pointed out, the maximum number of treasury shares shall never exceed 10% of the share capital of the Company, taking into account also the shares owned by its controlled subsidiaries.

The authorization to purchase is in accordance with article 2357, paragraph 3, of the Civil Code as it relates to a number of shares that will not exceed one fifth of the share capital.

The amount of available reserves and distributable profits as well as the verification of information for the assessment of compliance with the maximum limit of purchase to which the authorization refers, will be subject to verification at the time of each operation.

Duration for which authorisation is sought

The authorisation to purchase treasury shares, also through subsidiaries, is required for a period of 18 (eighteen) months from the date of approval of the resolution of the shareholders'

meeting authorising the purchase equal to the maximum time allowed by art. 2357, paragraph 2, of the Civil Code. The Board of Directors may carry out the authorised transactions in one or more times and at any time, to the extent and within the terms freely determined in accordance with the applicable law, with the progression considered appropriate in the interest of the Company.

The authorisation to dispose of the treasury shares is required without time limits.

Minimum and maximum consideration

The Board of Directors proposes that the purchases of treasury shares are carried out in compliance with the conditions established for the market allowed time to time in force, where applicable, and in particular for a consideration that does not exceed the highest price between the price of the last independent transaction and the price of the current highest independent offer in the trading venues where the purchase is made, being understood that the purchase transactions must be carried out at a price that does not deviate by more than 10% down and up from the reference price recorded by the security in the trading session preceding each transaction.

The disposals of treasury shares purchased pursuant to the resolution of the shareholders' meeting authorising the purchase, in one or more times in the manner deemed most appropriate in the interests of the Company and in compliance with applicable law, are made in the manners hereinafter specified:

- i) at a price established each time by the Board of Directors in relation to opportunity criteria, it being understood that this price shall optimise the economic effects on the Company, where the security itself is instrumental to the issuance of debt instruments convertible into/or exchangeable with equity instruments or incentive plans in connection with the exercise of the options to purchase shares by the relevant beneficiaries, or if the security is offered for sale, exchange, swap, capital contribution or other disposal, for acquisitions of shareholdings and/or real estate and/or the conclusion of agreements (trade agreements or otherwise) with strategic partners, and/or for implementation of industrial projects or Merger & Acquisition operations, which fall within the objectives of expansion of the Company and the Tesmec Group;
- ii) at a price that does not deviate by more than 10% down and up from the reference price recorded by the security in the trading session preceding each transaction for subsequent purchase and sale transactions.

Modalities in accordance to which the purchase and disposal of treasury shares will be made

The purchase transactions will be carried out, also through subsidiaries, in accordance with the provisions of Article 132 of the TUF, by Article 144-*bis*, by Regulation (EU) 596/2014 and by the Delegate Commission Regulation (EU) 2016/1052, as well as in accordance with the market practices approved by Consob allowed time to time in force, where applicable, and the operating procedures established in the regulations on the organisation and management of the

markets so as to ensure the equal treatment of shareholders in accordance with the provisions of Article 132 of the TUF.

It should be noted that, pursuant to Article 132, paragraph 3, of the TUF, the above provisions do not apply for the purchase of treasury shares owned by employees of the Company or its subsidiaries and allotted or subscribed pursuant to Articles 2349 and 2441, paragraph 8, of the Italian Civil Code, or arising from compensation plans approved under Article 114-*bis* of the TUF.

The maximum number of treasury shares that can be purchased on a daily basis will not be higher than 25% of the average daily volume of “Tescmec” shares traded on the market. The operations of disposal of treasury shares may be carried out, in one or more times, also before having reached the amount of shares that can be purchased. The disposal can be carried out in the manner deemed most appropriate in the interest of the Company and, in any case, in compliance with the applicable law and the market practices approved. The Company will inform the public and Consob, in accordance with the procedures and terms contemplated by the laws and regulations in force.

Information on whether the purchase is instrumental to a share capital reduction

It should be noted that the purchase of shares contemplated by this authorisation request is not instrumental to the reduction of share capital.

Exemption from the mandatory public tender offer requirement obligation deriving from the approval of the resolution authorising the purchase of treasury shares

It should be noted that, in general, the treasury shares held by the Company, directly or indirectly, are excluded from the share capital used for calculating whether the stake thresholds set forth under Article 106, paragraphs 1 and 3, letter b) of the TUF is crossed and the mandatory public tender offer is triggered.

However, pursuant to Article 44-*bis*, second paragraph, of the Issuers’ Regulation, the provision mentioned above does not apply if the crossing of the thresholds indicated in Article 106, paragraphs 1 and 3, letter b), of the TUF results from purchases of treasury shares carried out, directly or indirectly, by the Company in execution of a resolution passed, notwithstanding the provisions of Articles 2368 and 2369 of the Italian Civil Code, also with the vote of the majority of the shareholders of the Company, attending the meeting, other than TTC S.r.l. and Fi.Ind. S.p.A.

Consequently, in the event that the resolution herein proposed is passed also with the vote of the majority of the shareholders of the Company, attending the meeting, other than TTC S.r.l. and Fi.Ind. S.p.A., these latter would be exempted from the obligation to launch a public tender offer in case, as a result of the purchase of treasury shares thereby authorised, they will individually or jointly cross the thresholds set forth under Article 106, paragraphs 1 and 3, of the TUF.

* * *

In light of the foregoing, the Board invite the Shareholders' Meeting convened to pass the following resolution:

“The ordinary shareholders’ meeting of Tesmec S.p.A., after examining the Report of the Board of Directors and

acknowledging

- *that, where the resolution shown below is approved also with the vote of the majority of the shareholders of Tesmec S.p.A., attending the meeting, other than the shareholder or shareholders that hold, jointly or otherwise, the majority interest, relative or otherwise, however higher than 10 percent (i.e. TTC S.r.l. and Fi.Ind. S.p.A.) the exemption contemplated by the combined provisions of Article 106, paragraphs 1 and 3, of the TUF and of Article 44-bis, second paragraph, of the Issuers’ Regulation with regards to TTC S.r.l. and Fi.Ind. S.p.A. shall apply;*

resolves:

1. *to revoke the previous resolution authorising the purchase and disposal of the treasury shares of 6 April 2018, with effect as from the date of approval of this resolution;*
2. *to authorise the Board of Directors, with powers to subdelegate, to purchase and dispose, also through subsidiaries, up to a maximum number of ordinary shares of the Company, having a par value of Euro 0.10 each, equal to 10% of the pro-tempore share capital within the limits and for the purposes provided by law and market practices, taking into account the specific exemption provided under third paragraph of Article 132 of the TUF - in one or more times for a maximum period of 18 months from the date of this resolution. The purchase of treasury shares will be made within the limits of the distributable profits and of the available reserves resulting from the last financial statements approved by the company making the purchase.*

The purchase transactions shall be carried out as follows:

- i) *purchases shall be made on the market in a manner that does not allow direct matching of negotiation proposals with predetermined sales negotiation proposals and shall be carried out at a price that does not exceed the highest price between the price of the last independent transaction and the price of the current higher independent offer in the trading venues where the purchase is made, being understood that the purchase transactions shall be carried out at a price that does not deviate by more than 10% down and up from the reference price recorded by the security in the trading session preceding each transaction;*
- ii) *the disposals of the treasury shares purchased will be carried out, in one or more times in the manner deemed most appropriate in the interests of the Company and in compliance with applicable law, in the manner hereinafter specified:*
 - *at a price established each time by the Board of Directors in relation to opportunity criteria, it being understood that this price shall optimise the economic effects on the Company, where the security itself is instrumental to the issuance of debt instruments convertible into/or exchangeable with equity instruments or incentive plans in connection*

- with the exercise of the options to purchase shares by the relevant beneficiaries, or if the security is offered for sale, exchange, swap, capital contribution or other disposal, for acquisitions of shareholdings and/or real estate and/or the conclusion of agreements (trade agreements or otherwise) with strategic partners, and/or for implementation of industrial projects or Merger & Acquisition operations, which fall within the objectives of expansion of the Company and the Tesmec Group;*
- *at a price that does not deviate by more than 10% down and up from the reference price recorded by the security in the trading session preceding each transaction for the subsequent purchase and sale transactions.*
 - iii) *The maximum number of treasury shares that can be purchased on a daily basis will not be higher than 25% of the average daily volume of “Tesmec” shares traded on the market.*
 - iv) *The operations of disposal of treasury shares may be carried out, without time limits, in one or more times, also before having reached the amount of shares that can be purchased. The disposal may be carried out in the manner deemed most appropriate in the interest of the Company and, in any case, in compliance with the applicable law and the market practices approved by Consob allowed time to time in force, where applicable,*
3. *to grant to the Chairman of the Board of Directors and Managing Director any necessary and broadest power to implement these resolutions and to carry out any action necessary for their implementation, also by means of special attorneys, in compliance with any applicable provision enacted by competent Authorities in force from time to time.”*

* * *

4. Appointment of the Board of Directors:

4.1 determination of the number of members of the Board of Directors;

4.2 determination of their term in office;

4.3 appointment of the Board of Directors;

4.4 appointment of the Chairperson of the Board of Directors;

4.5 determination of directors' compensation;

4.6 related and consequent resolutions.

Dear Shareholders,

With reference to the fourth point on the agenda, with the approval of the financial statements as of 31 December 2018, the term of the Board of Directors currently in office, which was appointed at the Company's Shareholders' Meeting on 29 April 2016, expires. Therefore, the Shareholders are requested to set the number of such directors and appoint the new members of the Board of Directors, determine the length of their term, appoint the Chairperson and determine their compensation.

Article 14 of the Articles of Association, to which reference is made in full, provides that the Board of Directors shall consist of five to 15 members. Directors may hold office for no more than three years and their term expires on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their term. They may be re-elected. All directors must satisfy the eligibility, professional and integrity requirements imposed by law and other applicable regulations.

The Board of Directors must be composed in such a manner as to ensure its independence in accordance with requirements under current law. Pursuant to Article 147-*ter*, paragraph 4 of the TUF, at least one director (or at least two if the Board has more than seven members) must satisfy the independence requirements specified therein ("**Independent Director pursuant to Article 147-*ter***").

Shareholders at an Ordinary Shareholders' Meeting elect the members of the Board of Directors on the basis of lists submitted by shareholders in the manner indicated below.

Lists may contain no more than 15 candidates, each of which shall be assigned a sequential number. Each list must contain and expressly indicate at least one Independent Director under Article 147-*ter*, with a sequential number no higher than "7." If the list contains more than seven candidates, it must contain and expressly indicate a second Independent Director under Article 147-*ter*. Each list may also expressly indicate, if applicable, directors satisfying the independence requirements under codes of conduct produced by regulated market management companies or trade associations.

Article 14 of the Articles of Association requires that the Board of Directors be elected in accordance with gender balance regulations under Italian Law No. 120 of 12 July 2011 and applicable rules and regulations. Since this is the third application of that provision, in accordance with the same and Article 147-*ter*, paragraph 1-*ter* of the TUF, a share of at least one-third of the directors elected is reserved for the less represented gender. Therefore, under Article 14 of the Articles of Association, shareholders who intend to submit a list for the renewal of the Board of Directors containing a number of candidates equal to or greater than three are required to include a number of candidates belonging to the less represented gender equal to at least one-third of the candidates (rounding up, if necessary, to the higher integer), also in accordance with the Diversity Policy adopted by the Company's Board of Directors on 1 March 2018. Pursuant to that Policy, in conformity with current law and the Company's Articles of Association, at least one-third (rounded up) of the Board of Directors must consist of individuals of the "least represented" gender which, based on past experience, is typically female.

Only shareholders who, on the date the list is submitted, hold alone or with others shares with voting rights that in total represent at least 4.5% of the subscribed and paid-in capital with the right to vote at Ordinary Shareholders' Meetings for Company offices may submit a

list. Each shareholder may submit (or submit with others) and vote for, including via an intermediary or trust company, no more than one list. A candidate may appear in only one list or such candidate will be ineligible.

Lists must be filed at the Company's headquarters or sent to the Company by e-mail to: tesmecspa@pec.it (Attn: Mr Marco Paredi), at least 25 (twenty-five) days before the date set for the Meeting, i.e., by 22 March 2019. The Company shall make the lists available to the public on the "Shareholders' Meetings" section of the website www.tesmec.com and in the manner required by current law without delay and, in any event, at least 21 (twenty-one) days before the date set for the Shareholders' Meeting, i.e., by 26 March 2019.

The lists must also contain the following, which may appear in an annex:

- (a) a curriculum vitae for each candidate that provides personal and professional information;
- (b) statements in which each candidate accepts his or her candidacy and certifies, under his or her own responsibility, that there are no grounds for ineligibility or incompatibility and that he or she satisfies the requirements under current law to serve as a director of the Company, including a statement, if applicable, that he or she satisfies the requirements to be considered an "Independent Director under Article 147-ter" and, if applicable, any additional requirements under codes of conduct produced by regulated market management companies or trade associations;
- (c) the names of the shareholders that submitted the lists and their total percentage ownership, as evidenced by a specific communication issued by a broker, subject to Article 147-ter, paragraph 1-bis of the TUF;
- (d) any other additional or different statements, disclosures and/or documents required by applicable law and regulations.

No shareholder or group of shareholders that are parties to the same shareholders' agreement under Article 122 of the TUF may submit and vote for more than one list, including via an intermediary or trust company.

At the conclusion of voting, the candidates from the two lists that received the highest number of votes shall be deemed elected, with the following criteria:

- (i) a number of directors equal to the total number of Board members, as previously determined by the shareholders, less one, shall be taken from the list that received the highest number of votes (the "**Majority List**"). Within those numerical limits, the candidates shall be deemed elected in the sequential order shown on the list;

- (ii) one director, namely, the candidate listed in the first position, shall be taken from the list that received the second highest number of votes and that is not associated, directly or indirectly, with the shareholders that submitted or voted for the Majority List under applicable law and is not the list submitted by the Board of Directors (the “**Minority List**”). However, if no Independent Director under Article 147-*ter* was elected from the Majority List, for a Board that has no more than seven members (or if only one Independent Director under Article 147-*ter* was elected for a Board of more than seven members), the first Independent Director under Article 147-*ter* appearing on the Minority List shall be elected, rather than the candidate in the first position on the Minority List.

In addition, if the composition of the Board of Directors with the candidates elected as indicated above does not comply with current law on gender balance, the candidate from the most represented gender elected last in sequential order from the Majority List shall be replaced by the first candidate from the least represented gender on that list in sequential order. That procedure shall be repeated until the composition of the Board of Directors complies with current law on gender balance. If that procedure does not result in gender balance, the replacement shall be made by resolution adopted by Shareholders by plurality vote, upon the submission of candidacies of individuals belonging to the least represented gender.

Lists that did not receive a percentage of votes equalling at least one-half of the percentage required to submit those lists will be ignored.

If lists receive an equal number of votes, the list submitted by shareholders holding the highest equity ownership percentage when the list was submitted or, alternatively, the list submitted by the largest number of shareholders shall prevail.

If only one list is submitted, the shareholders shall vote on it and, if it receives a plurality of votes cast, not counting abstentions, the candidates elected in sequential order, up to the number set by the shareholders, shall be deemed elected as directors, provided that, if the Board has more than seven members, the second Independent Director under Article 147-*ter* (in addition to the Independent Director under Article 147-*ter* who necessarily appeared in the first seven positions) shall be deemed elected, subject to compliance with current law on gender balance.

If no lists are submitted, or if the number of directors elected on the basis of the lists submitted is less than the number set by the shareholders, the members of the Board of Directors shall be appointed by the shareholders with the majorities required by law. The shareholders must appoint at least the minimum number of Independent Directors under Article 147-*ter* required by law and must comply with current law on gender balance.

The Independent Directors under Article 147-*ter* who were indicated as such when they were appointed must immediately notify the Board of Directors if the requirements for independence are no longer satisfied. Any such Independent Director shall leave office if the Board no longer contains the minimum number of directors satisfying the independence requirements under law.

The candidate deemed elected as the Chairperson of Board of Directors will be the individual indicated as such on the Majority List or on the only list that was submitted and approved. Otherwise, the Chairperson shall be appointed by shareholders with the normal majorities required by law, or shall be appointed by the Administrative Body.

Lists that do not comply with all of the rules above shall be treated as if they were never submitted.

Shareholders who intend to submit a list may contact Tesmec's Investor Relator, Mr Marco Paredi, in advance to obtain the necessary administrative details.

Shareholders submitting a Minority List are subject to the Consob's recommendations in its Communication No. DEM/9017893 of 26 February 2009.

In addition, in accordance with the provisions of the Self-Regulatory Code of Conduct for listed companies, which Tesmec abides by, the Board of Directors, during its annual self-evaluation process, with a view to the upcoming election of the Board of Directors, expressed its goals for the composition of the Board, stating that it hoped that shareholders, when submitting lists, would maintain a comparable qualitative level of the Board in terms of expertise and experience represented, while also considering candidates' gender and the criteria set forth in the Diversity Policy. It also pointed out that it would be appropriate for shareholders to consider, with the goal of further enhancing the personal characteristics/professionalism and knowledge of Board members, potentially adding individuals who have gained management experience with listed companies or companies whose size, complexity, international scope and/or business are similar to the Company's. In regard to naming the independent directors, the Board also urged stricter application of the independence criteria, because the Corporate Governance Committee asked the administrative bodies to apply the Self-Regulatory Code of Conduct's independence criteria more rigorously, since both a failure to apply them and substantively applying them – which more often involve the criterion of remaining in office for more than nine years – given the role played by the independent directors in the Board's decision-making process regarding particularly significant and sensitive matters, could significantly affect the effectiveness and adequacy of the governance systems.

Specifically, in accordance with the Diversity Policy:

- in regard to the size of the Board of Directors, it was felt that the current number of members of the Board of Directors – i.e., eight – permits an adequate balance of expertise and experience necessitated by the complexity of the Company and the Group, including within Board committees;
- in regard to the professional requirements, to cite the recommendations of the Self-Regulatory Code of Conduct: (i) at least one member should have adequate knowledge and experience in financial matters or compensation policies and (ii) at least one member should have adequate experience in accounting and financial matters or risk management. In addition, the Board should include individuals with varied expertise and experience in different sectors (finance, management and control, legal, strategy, engineering, sustainability) and directors should be proficient in English, in part given the Tesmec Group’s international presence;
- in relation to age and seniority in office, the Board of Directors should include individuals of varying ages, generations and seniority, in order to encourage a proper balance between experience, continuity, innovation and propensity for risk;
- as to gender representation, the Diversity Policy requires that the Board of Directors reflect adequate representation of both genders. Specifically, in accordance with the requirements of current law and the Company’s Articles of Association, at least one-third (rounded up) of the Board of Directors must consist of individuals of the “least represented” gender which, based on past experience, is typically female;
- in regard to geographic origin and international experience, it is recommended that directors have gained educational and professional experience in international settings that will further enhance the quality of Board dynamics, especially considering the Group’s international presence.

Under the Self-Regulatory Code of Conduct, it is hoped that shareholders, when submitting lists and appointing directors, in light of the opinion issued by the Board on the topic and the issuer’s diversity criteria, will assess the professional characteristics, managerial and other experience and gender of the candidates in relation to the issuer’s size and complexity and the specific nature of the industry in which it operates, as well as the size of the Board of Directors.

Specifically, for the appointment of the Board of Directors, adequate disclosure must be provided in the documents submitted for the filing of the list, as to whether the list complies with the issuer’s gender diversity goals.

In regard to annual compensation, Article 20 of the Articles of Association provides that shareholders shall determine the annual compensation of the Board of Directors, which may consist of a fixed and a variable portion, with the latter based on achieving specified goals. The allocation of that compensation among the members of the Board of Directors shall be made by Board resolution if the shareholders do not do so.

In addition to the total amount set by the shareholders as set forth above, the Board of Directors retains the right, after obtaining the Board of Statutory Auditors' opinion, to determine the compensation for directors with specific responsibilities under Article 2389, paragraph 3 of the Italian Civil Code.

Alternatively, the shareholders may set a total amount as compensation for all directors, including those with specific responsibilities, which amount may be allocated by the Board of Directors after obtaining the Board of Statutory Auditors' opinion, in regard to amounts payable to directors with specific responsibilities under Article 2389, paragraph 3 of the Italian Civil Code.

The Board of Directors is making no proposals in this regard and requests that you take action based on proposals that will be made during the Shareholders' Meeting.

For informational purposes, shareholders at the Shareholders' Meeting on 29 April 2016 set base annual compensation for members of the Board of Directors of up to Euro 720,000.00, not including incentive compensation for directors given specific responsibilities in accordance with the Articles of Association.

5. Appointment of the Board of Statutory Auditors:

5.1 appointment of the Board of Statutory Auditors;

5.2 appointment of the Chairperson of the Board of Statutory Auditors;

5.3 determination of the compensation of the Board of Statutory Auditors;

5.4 related and consequent resolutions.

Dear Shareholders,

In regard to the fifth point on the agenda for the ordinary portion of the Shareholders' Meeting, with the approval of the financial statements as of 31 December 2018, the term of the Board of Statutory Auditors currently in office, which was appointed at the Company's Shareholders' Meeting on 29 April 2016, consisting of a total of five statutory auditors, of which three are standing and two are alternates, is expiring. Therefore, the shareholders are requested to appoint the new members of the Board of Statutory Auditors and the Chairperson and determine their compensation.

Article 22 of the Articles of Association, to which reference is made in full, provides that the Board of Statutory Auditors shall consist of three standing statutory auditors and two alternate statutory auditors. Statutory auditors hold office for three financial years, until the date of the Shareholders' Meeting called to approve the financial statements for the last year of their term. They may be re-elected.

All statutory auditors must satisfy requirements under law and other applicable regulations. In regard to the professional requirements, topics and industries closely associated with that of the Company are the same as the activities set forth in detail in the corporate purpose, as well as topics relating to private and administrative law, financial regulations and regulations relating to auditing and corporate organisation.

Members of the Board of Statutory Auditors are subject to the limits on holding multiple governance and control offices set forth in Consob regulation.

Shareholders shall appoint the Board of Statutory Auditors on the basis of lists submitted by shareholders in the manner indicated below.

Article 22 of the Articles of Association requires that the Board of Statutory Auditors be elected in accordance with gender balance rules under Italian Law No. 120 of 12 July 2011 and applicable laws and regulations. Since this is the third Board of Statutory Auditors elected under that law, in accordance with that law and Article 148, paragraph 1-*bis* of the TUF, at least one-third of the statutory auditors elected is reserved for the least represented gender. Therefore, under Article 22 of the Articles of Association, shareholders intending to submit a list for the renewal of the Board of Statutory Auditors containing a number of candidates equal to or greater than three are required to include in the section of statutory auditors a number of candidates belonging to the less represented gender equal to at least one third of the candidates (rounding up, if necessary, to the higher integer), as well as one for each gender, should the section of alternate auditors contain two candidates, one of each gender, also in accordance with the Diversity Policy adopted by the Company's Board of Directors on 1 March 2018. Pursuant to that Policy, in conformity with current law and the Company's Articles of Association, at least one-third (rounded up) of the Board of Statutory Auditors must consist of individuals of the "least represented" gender which, based on past experience, is typically female.

Specifically, in accordance with the Diversity Policy:

- in regard to the composition of the Board of Statutory Auditors, under current law, at least one standing statutory auditor must be registered on the registry of statutory auditors of accounts and must have engaged in statutory audit of accounts for a period of no less than three years. Statutory auditors who do not satisfy that requirement must be chosen from individuals who have gained at least three years' overall experience in:
 - governance or control activities or managerial responsibilities at corporations, limited partnerships by shares, limited liability companies or simplified limited liability companies with capital of Euro two million or more,
 - professional activity or university teaching activities in legal, economic, financial or technical/scientific fields that is closely associated with the Company's business, **or**
 - managerial functions at public or governmental entities or agencies operating in the lending, financial or insurance sectors or otherwise in sectors closely associated

with the Company's business (i.e., subject matter relating to commercial and tax law, business economics and corporate finance, and topics and business sectors relating to energy in general, communications and network structures).

- in regard to professional requirements, the Articles of Association make reference to topics and industries closely associated with that of the Company are the same as the activities set forth in detail in the corporate purpose, as well as topics relating to private and administrative law, financial regulations and regulations relating to auditing and corporate organisation.
- in regard to gender representation, in accordance with requirements of current law and the Company's Articles of Association, at least one-third of the Board of Statutory Auditors must consist of individuals of the "least represented" gender which, based on past experience, is typically female.
- members of the Board of Statutory Auditors must also satisfy the requirements for integrity and independence under current law and the Company's Articles of Association.

In accordance with the Self-Regulatory Code of Conduct, it is recommended that shareholders submitting a list for the appointment of the Board of Statutory Auditors provide adequate disclosure in the documents submitted for the filing of the list as to whether the list complies with the issuer's gender diversity goals.

Only shareholders who, on the date the list is submitted, hold alone or with others shares with voting rights that in total represent at least 4.5% of the subscribed and paid-in capital with the right to vote at Ordinary Shareholders' Meetings for Company offices may submit a list. Each shareholder may submit (or submit with others) and vote for no more than one list, including via an intermediary or trust company. A candidate may appear in only one list or such candidate will be ineligible.

Lists must be filed at the Company's headquarters or sent to the Company by e-mail to: tesmecspa@pec.it (Attn: Mr Marco Paredi), at least 25 (twenty-five) days before the date set for the Meeting, i.e., by 22 March 2019. The Company shall make the lists available to the public on the "Shareholders' Meetings" section of the website www.tesmec.com and in the manner required by current law without delay and, in any event, at least 21 (twenty-one) days before the date set for the Shareholders' Meeting, i.e., by 26 March 2019.

Specifically in regard to the appointment of the Board of Statutory Auditors, in the event that by 22 March 2019 only one list has been submitted, or only lists submitted by shareholders who, based on the information provided and the documents filed in accordance with the above, are related pursuant to Article 144-*quinquies* of the Issuers' Regulation, the Company

shall give notice thereof without delay and shareholders will be able to submit lists of candidates for appointment as statutory auditors until the third day after that date, i.e., by 25 March 2019. In that event: (i) the minimum ownership percentage necessary to submit lists shall be 2.25% of the subscribed and paid-in capital with the right to vote at Ordinary Shareholders' Meetings for Company offices; (ii) the documents evidencing that ownership interest at the time the list is submitted must be filed by 26 March 2019 in the manner set forth in Article 22 of the Company's Articles of Association.

The lists must contain the names of one or more candidates for the office of standing statutory auditor and one or more candidates for the office of alternate statutory auditor. In each section (standing statutory auditor section and alternate statutory auditor section), each of the candidates' names shall be assigned a sequential number and their number cannot exceed the seats on the body to be elected.

The lists must also contain the following, which may appear in an annex:

- (a) the names of the shareholders that submitted the lists, their total percentage equity ownership and a certification evidencing that ownership, subject to Article 147-*ter*, paragraph 1-*bis* of the TUF;
- (b) a statement by shareholders (other than shareholders holding, individually or jointly, a controlling or plurality stake) certifying that they are not related to the latter pursuant to Article 144-*quinquies* of the Issuers' Regulation;
- (c) thorough disclosure about the candidates' personal and professional characteristics and a statement from the candidates that they satisfy legal requirements and accept their candidacy, accompanied by a list of the management and control offices they hold in other companies;
- (d) any other additional or different statements, disclosures and/or documents required by applicable law and regulations.

Lists that do not comply with all of the rules above shall be treated as if they were never submitted. No shareholder may submit or vote for more than one list, including via an intermediary or trust company. Shareholders in a single group and shareholders who are parties to a shareholders' agreement involving shares of the issuer may not submit or vote for more than one list, including via an intermediary or trust company. Memberships and votes in violation of this prohibition will not be attributable to any list. A candidate may appear in only one list or such candidate will be ineligible.

The election of Statutory Auditors shall take place as indicated below:

- (i) two standing statutory auditors and one alternate statutory auditor shall be taken from the list that received the highest number of votes (the “**Majority List**”), in the sequential order in which they are listed on the list;
- (ii) from the list that received the second highest number of votes and that is not associated, directly or indirectly, with the shareholders that submitted or voted for the Majority List under applicable law (the “**Minority List**”), one standing statutory auditor, who shall be the Chairperson of the Board of Statutory Auditors (the “**Minority Auditor**”), and one alternate statutory auditor (the “**Minority Alternate Auditor**”) shall be taken in the sequential order in which they are listed on the list.

If lists receive an equal number of votes, the list submitted by shareholders holding the highest equity ownership percentage when the list was submitted or, alternatively, the list submitted by the largest number of shareholders shall prevail.

If, after applying the aforementioned procedures, the composition of the Board of Statutory Auditors (in relation to the standing members) above does not comply with current law on gender balance, they shall be replaced by candidates for the office of standing statutory auditor on the Majority List, based on the sequential order in which the candidates are listed.

If only one list is submitted, the shareholders shall vote on it and, if it receives a plurality of votes cast, not counting abstentions, all the candidates for the offices of standing and alternate statutory auditor on that list shall be deemed elected. In that case, the Chairperson of the Board of Statutory Auditors shall be the first candidate for standing statutory auditor.

If no lists are submitted, the Board of Statutory Auditors and Chairperson shall be appointed by the shareholders with the normal majorities required by law in compliance with current law on gender balance.

Shareholders who intend to submit a list may contact Tesmec’s Investor Relator, Mr Marco Paredi, in advance to obtain the necessary administrative details.

Shareholders submitting a Minority List are subject to the Consob’s recommendations in its Communication No. DEM/9017893 of 26 February 2009.

In regard to annual compensation, Article 22 of the Articles of Association provides that shareholders shall determine the compensation of the statutory auditors at the time they are appointed, for their entire term in office.

The Board of Directors is making no proposals in this regard and requests that you take action based on proposals that will be made during the Shareholders’ Meeting.

For informational purposes, the shareholders at the Shareholders' Meeting on 29 April 2016 set standing statutory auditors' annual compensation for their entire term in office at Euro 37,500.00 for the Chairperson and Euro 25,000.00 for the other two standing statutory auditors.

6. Granting of the engagement to perform the statutory audit of the accounts for the financial years 2019–2027 and determination of the relevant remuneration. Related and consequent resolutions.

Dear Shareholders,

In regard to the sixth point on the agenda, with the approval of the annual financial statements as of 31 December 2018, the engagement to perform the statutory audit of the accounts that was granted in 2010 at the Ordinary Shareholders' meeting to the independent auditors Reconta Ernst & Young S.p.A. (the "**Outgoing Auditor**") will expire, thereby completing the nine-year period as set forth in current law.

It has thus become necessary to grant a new engagement to perform the statutory audit of the accounts in accordance with the provisions of:

- Italian Legislative Decree No. 39 of 27 January 2010, as most recently amended by Italian Legislative Decree No. 135 of 17 July 2016, transposing Directive 2014/56/EU, which amended Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts; and
- European Regulation 537/2014 (the "**Regulation**"), on public-interest entities and auditing public-interest entities, applicable since 17 June 2016.

To that end, in September 2018, the Company began the procedure for selecting the new independent auditors which would be engaged for the years 2019–2027, which was carried out in accordance with Article 16 of the Regulation.

After that selection procedure launched by the Company – for which the Board of Statutory Auditors (acting as the *Internal Control and Audit Committee*) is responsible – was completed, the Board of Statutory Auditors prepared, in accordance with law, its justified proposal containing its recommendation and preference so that shareholders at the Ordinary Shareholders' Meeting could take the necessary actions to grant the engagement for the statutory audit of the accounts for the years 2019–2027 and determine the compensation to be paid to the selected independent auditors for the entire term of the engagement and any criteria for adjusting that compensation during the engagement.

The Board of Directors, given that:

- the Outgoing Auditor cannot be re-appointed since, based on current law (Article 17 of Italian Legislative Decree no. 39 of 27 January 2010, as amended), *“the audit engagement shall have a nine-year term and cannot be renewed or re-granted unless at least four financial years have elapsed since the previous engagement ended”*;
- the firms invited to participate in the selection process, because of their membership in leading international networks and with high standards for quality and professionalism in the services they offer, have gained significant experience in the statutory audit of listed companies;
- the methods used to perform the statutory audit described in their proposals, considering the hours and professional staff expected to be deployed, are generally adequate based on the scope and complexity of the engagement;
- the proposals received contain a specific, justified statement concerning their commitment to prove that they satisfy the independence requirements imposed by law, particularly Articles 10 and 17 of Italian Legislative Decree No. 39 of 27 January 2010, as amended;

acknowledges that the Company’s Board of Statutory Auditors has completed its work in accordance with applicable law and prepared its justified proposal to the shareholders, which is attached hereto (Annex no.1A), containing its recommendation and preference as between the two alternatives proposed, to which reference is made.

In summary, the Board of Statutory Auditors recommends that the shareholders grant the engagement for the Company’s statutory audit for the years 2019–2027 to the firm Deloitte & Touche S.p.A. or to the firm PricewaterhouseCoopers S.p.A., and expresses a preference for **Deloitte & Touche S.p.A.**, because – given the Company’s qualitative and financial expectations, its proposal was more competitive overall (for a summary of the respective proposals, see Annexes no.1 and 2).

Based on the foregoing, the Board of Directors hereby submits the following proposed resolution for your approval:

“The shareholders at the Ordinary Shareholders’ Meeting of Tesmec S.p.A.:

- *acknowledging that, with the approval of the financial statements as of 31 December 2018, the engagement to perform the statutory audit of the Company’s accounts that was granted in 2010 to the independent auditors Reconta Ernst & Young S.p.A. will expire;*

- *having examined the justified proposal of the Board of Statutory Auditors, acting as the “Internal Control and Audit Committee,” and considering its recommendation and the preference it indicated,*

hereby resolves

1. *to engage the firm Deloitte & Touche S.p.A. to perform the statutory audit of the accounts of Tesmec S.p.A. for the years 2019–2027, subject to any grounds for early termination, on the terms and conditions set forth in that independent auditors’ proposal, the financial terms of which are summarised in the explanatory Report prepared by the Directors for purposes of the Shareholders’ Meeting;*
2. *to grant a broad mandate to the legal representatives in office pro tempore so that they may individually, alone or through special attorneys-in-fact, take all actions necessary or useful to carry out this resolution, and to comply with any related and necessary formalities at competent bodies and/or offices, with the power to make any immaterial changes thereto that are necessary for that purpose, and in general to take all actions needed to fully implement the same, with any and all necessary and appropriate powers, in accordance with current law.”*

In the event that, after the votes are cast, the above resolution is not approved, the Board of Directors submits the following alternative proposed resolution for your approval:

“The shareholders at the Ordinary Shareholders’ Meeting of Tesmec S.p.A.:

- *acknowledging that, with the approval of the financial statements as of 31 December 2018, the engagement to perform the statutory audit of the Company’s accounts that was granted in 2010 to the independent auditors Reconta Ernst & Young S.p.A. will expire;*
- *having examined the justified proposal of the Board of Statutory Auditors, acting as the “Internal Control and Audit Committee,” and considering its recommendation and the preference it indicated*

hereby resolves

1. *to engage the firm PriceWaterhouseCoopers S.p.A. to perform the statutory audit of the accounts of Tesmec S.p.A. for the years 2019–2027, subject to any grounds for early termination, on the terms and conditions set forth in that independent auditors’ proposal, the financial terms of which are summarised in the explanatory Report prepared by the Directors for purposes of the Shareholders’ Meeting;*
2. *to grant a broad mandate to the legal representatives in office pro tempore so that they may individually, alone or through special attorneys-in-fact, take all actions necessary or useful to carry out this resolution, and to comply with any related and necessary formalities at competent bodies and/or offices, with the power to make any immaterial changes thereto that are necessary for that purpose, and in general to take all actions needed to fully implement the same, with any and all necessary and appropriate powers, in accordance with current law.”*

* * *

Grassobbio, 6 March 2019

TESMEC S.p.A.

The Chairman of the Board of Directors
Ambrogio Caccia Dominioni

ANNEX 1 A

JUSTIFIED RECOMMENDATION OF THE BOARD OF STATUTORY AUDITORS OF TESMEC S.P.A. FOR GRANTING THE ENGAGEMENT TO PERFORM THE STATUTORY AUDIT OF THE ACCOUNTS FOR THE FINANCIAL YEARS 2019–2027

Introduction

With the approval of the financial statements for Tesmec S.p.A. (“**Tesmec**” or the “**Company**”) and the consolidated financial statements for the Tesmec Group for the year ended on 31 December 2018, the engagement to perform the statutory audit of the accounts for the nine-year period of 2010–2018 that was granted on 23 February 2010 by Tesmec’s shareholders at the Shareholders’ Meeting to EY S.p.A. (formerly Reconta Ernst & Young S.p.A.) (“**EY**”) is coming to an end.

That engagement may not be renewed, since the year 2018 will complete the maximum nine-year term for public-interest entities like Tesmec set forth in Article 17, paragraph 1 of Italian Legislative Decree No. 39 of 27 January 2010 (the “**Decree**”), pursuant to which the audit engagement for public-interest entities may have a nine-year term for the Independent Auditors and a seven-year term for the statutory auditors and cannot be renewed or re-granted unless at least four financial years have elapsed since the last engagement ended.

Thus, a new Independent Auditors must be appointed in accordance with the provisions of the Decree and Regulation (EU) No. 537/2014 in regard to the statutory audit of public-interest entities (the “**Regulation**”).

In that regard, (i) Article 13 of the Decree provides that the shareholders at a Shareholders’ Meeting shall make that appointment based on a justified proposal from the Board of Statutory Auditors, whereas (ii) Article 16 of the Regulation provides that the Internal Control and Audit Committee (the “**ICAC**”) – whose role, in the Italian legal system, under the Decree, is performed by the Board of Statutory Auditors for companies, like Tesmec, that have adopted the traditional system of management and control – shall submit a justified recommendation to the administrative body of the audited entity, which must contain at least two possible candidates for the appointment and which expresses a duly justified preference for one of them.

The shareholders at the Company’s Shareholders’ Meeting called to approve Tesmec’s financial statements as of 31 December 2018 will thus be asked to take action, based on the Board of Statutory Auditors’ justified proposal, in regard to granting the statutory audit engagement to the new Independent Auditors and determining its remuneration and any criteria for adjusting that remuneration during the period of the engagement.

In light of the foregoing, the Board of Statutory Auditors, acting as an ICAC, prepared the following recommendation (the “**Recommendation**”) for the Board of Directors in accordance with Italian and EU laws.

The legal framework

The legal framework in regard to the statutory audit was significantly changed by two separate laws:

- Directive 2006/43/EC, as amended by Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts, which was transposed by Italian Legislative Decree No. 39 of 27 January 2010, as most recently amended by Italian Legislative Decree No. 135 of 17 July 2016; and
- Regulation (EU) No. 537/2014, on specific requirements regarding the statutory audit of public-interest entities, applicable since 17 June 2016.

The issuance of the Decree completed the process of reforming the statutory audit, which took place at the EU level in response to the financial crisis during the years 2008–2009.

The Decree lays down general rules regarding the statutory audit and certain specific rules for the statutory audit of public-interest entities.

The Regulation covers certain specific points in the laws relating to the legal audit of public-interest entities, which Tesmec is as an Italian company issuing securities admitted for trading on a regulated market.

The purpose of the new law is to further harmonise the rules originally introduced by Directive 2006/43/EC at the European Union level to ensure greater transparency and predictability of the obligations applicable to persons and entities that perform the statutory audit of the accounts and increase their independence and objectivity in performing their tasks, and to increase the public’s trust in the financial statements and consolidated financial statements of the aforementioned entities.

As a tool for enhancing the quality of the audit, the Regulation strengthened the role of the ICAC in selecting the new company to perform the statutory audit of the accounts.

The ICAC was given the responsibility of submitting a justified recommendation to the administrative body (namely, the Board of Directors in companies that use the traditional governance system) to allow shareholders to make an adequately considered decision.

Specifically, Article 16 of the Regulation provides that:

- a) the ICAC shall submit a recommendation to the administrative body to grant the statutory audit engagement;

- b) the recommendation must be justified and contain at least two possible choices for the audit engagement, with a duly justified preference expressly indicated for one of them;
- c) the proposal to shareholders must include the recommendation and preference;
- d) the Board of Statutory Auditors, as the ICAC, is responsible for the selection procedure.

Article 13 of the Decree references the provisions of Article 16 of the Regulation and provides that the shareholders, upon the supervisory body's justified proposal, shall grant the statutory audit engagement to the Independent Auditors and shall determine its remuneration for the entire term of the engagement and any criteria for adjusting that remuneration during the engagement.

The selection procedure

With a view to the granting of the engagement to perform the statutory audit of the accounts, starting in September 2018 Tesmec began the procedure for selecting the new Independent Auditors which would be engaged for the financial years 2019–2027.

The Board of Statutory Auditors, acting as the “Internal Control and Audit Committee,” prepared the following Recommendation for the Board of Directors in accordance with the requirements of current European Union law.

The Company's functions are given “implementing” tasks, while the Board of Statutory Auditors is assigned the roles of responsibility, evaluating the entire process and ensuring the procedure is lawful.

The recommendation was prepared following a special selection process initiated by the Company and for which the Board of Statutory Auditors is responsible under Article 16, paragraph 3 of the Regulation. During the selection procedure, the Board of Statutory Auditors was supported by a commission that examined the candidates (the “**Commission**”) made up of the following individuals:

- the Chairperson of the Board of Statutory Auditors;
- the Deputy Chairperson of the Board of Directors;
- an Independent Director; and
- the CFO and Responsible Officer.

The Consolidated Financial Statements Manager acted as secretary of the Commission.

In preparation for commencing the selection process, the Company, together with the Board of Statutory Auditors, set clear and objective selection criteria to ensure the procedure was transparent and the work it performed and the decisions it made were traceable.

Technical, qualitative and quantitative aspects were considered in setting the selection criteria.

In order to obtain a better understanding of the information provided by the Independent Auditors, an “Analysis Grid” checklist was developed to identify the aspects to be clarified during the discussions with the companies participating in the tender proceeding and any additional documentation to be requested.

In regard to the Independent Auditors selection criteria, in order to better understand the hours and services offered, the scope, hours and mix proposed in the proposals were summarised in tabular form to permit the results to be compared with the information for the current auditor.

Main contents of the proposal:

The selection procedure covered the performance of the following services:

- under Article 14 of the Decree, the engagement to perform the statutory audit of Tesmec’s financial statements and the Tesmec Group’s consolidated financial statements for the years 2019–2027;
- the engagement to perform a limited audit of the interim condensed financial statements as of 30 June for the years 2019 to 2027;
- the report relating to the “Non–Financial Statement” under Italian Legislative Decree 254/2016;
- examining the adequacy of the system of internal controls associated with the preparation of the financial information to be used to prepare Tesmec’s financial statements and the Tesmec Group’s consolidated financial statements;
- reviews associated with signing Tesmec’s and its audited Italian subsidiaries’ tax returns;
- expressing an opinion as to the consistency of the Report on Operations and, specifically, that the report on corporate governance and ownership structures is consistent with the financial statements; and
- certification that the accounting records are being properly maintained and that the Company’s operations are being recorded properly in Tesmec’s accounting entries.

The Request for Proposals

The Company, together with the Board of Statutory Auditors, conducted an assessment for the purpose of identifying the Independent Auditors to be admitted to the procedure. It then sent a letter containing a request for proposals (the “**Request for Proposals**”), including annexes, to the selected firms regarding providing services for the statutory audit of the accounts required by the Company.

The Request for Proposals and related annexes were prepared in such a way that the Independent Auditors could understand the Company's business and the type of statutory audit of the accounts to be performed, so that those firms would have the information necessary to prepare their respective proposals. They contained transparent and non-discriminatory selection criteria for evaluating the proposals received, and stated that no clauses referred to in Article 16, paragraph 6 of the Regulation were applicable.

On 24 September 2018, the following Independent Auditors were requested to indicate their interest in participating in the selection: [Deloitte & Touche S.p.A. ("**Deloitte**"), KPMG S.p.A. ("**KPMG**") and PriceWaterhouseCoopers S.p.A. ("**PWC**")]. They were deemed suitable for participating in the selection process because, given the international scope of the Tesmec Group's business, they are members of leading international networks and have high standards for professionalism and the quality of services they offer.

Analysis and evaluation of the proposals

After the letters were sent, the Commission met with representatives of the firms invited to submit proposals to provide all necessary documents and information useful for preparing their proposals.

The Independent Auditors that submitted proposals certified that they satisfied the independence requirements or declared their commitment to removing any grounds for incompatibility in accordance with the requirements of Italian and European Union law.

As required, on 24 October 2018 the Company received proposals from Deloitte and PWC (the "**Proposing Firms**").

The Independent Auditors KPMG S.p.A. declined the invitation and did not submit a proposal.

After analysing the proposals received, the Commission decided it would be appropriate to clarify the relevant scope and consolidation perimeter for the audit work with the participants and asked for missing details to be provided for purposes of comparing the proposals.

Therefore, in a letter dated 3 December 2018, the Proposing Firms were asked to submit a better financial proposal (a "**Resubmission**") containing the additional information requested with the resulting adjustment of and improvement to the financial proposal.

As requested, the Company received the Resubmission proposals on 17 December 2018.

After a careful analysis of the proposals received, the Commission decided to schedule meetings, which were held in January 2019, where the Proposing Firms presented their proposals and the work teams involved in detail.

Following the Company's request that they provide additional details that were highlighted during the discussions, the Proposing Firms were asked to submit their final proposals, which were sent on 8 February 2019.

Based on the documents received and the valuation criteria set forth below, the Board of Statutory Auditors evaluated the proposals in detail by analysing the distinctive and qualifying aspects of each proposal for each evaluation criterion.

Each entry of the qualitative portion of the proposals submitted by the Independent Auditors was analysed and given a specific score on a scale from 1 to 100.

To evaluate the overall financial proposal (the quantitative portion), a score was assigned by giving a value of 50 to the average of the prices, and positive (meaning favourable to Tesmec) or negative variances from that average were added or subtracted. In order to also take into account the "quality" of the financial proposal, such as the composition of the mix of hours performed by the various members of the audit team, it was possible to further adjust the value so obtained by a maximum amount of 5. Thereafter, that amount was weighted.

Among the qualitative elements, the following aspects were considered:

(i) Knowledge of the Group (administrative section) (1-100)

Information useful for evaluating and verifying the prerequisites necessary to perform the engagement and determining whether any situations of incompatibility exist in regard to receiving that engagement, such as:

- existing and prospective consulting/professional service engagements already in place with any companies in the Group;
- the presence of any grounds for incompatibility that would impair the auditor's future independence; and
- previous knowledge of the Company granting the engagement and of its Group gained in previous audit engagements.

(ii) Characteristics of the Independent Auditors and its network (general section) (1-100)

Information about the general characteristics of the Proposing Firm's organisation, such as:

- the diffusion of its network (regional, national and international);
- its business model and system of corporate governance;
- main audit engagements for companies operating in a similar industry performed within the last 10 years;
- its quality control system;
- the presence of representatives of the Independent Auditors in institutional bodies and associations in Italy and abroad; and

- Quality & Risk management (independence).

(iii) The methodological approach chosen (technical section) (1-100)

Information about the audit process useful for evaluating the level of technical expertise, automation and strategy on which it is based, such as:

- the audit strategy/plan and the method for preparing the plan, specifically in regard to areas deemed critical in the Group's consolidated financial statements and any tools used to support the audit process;
- methods of communicating with corporate and control functions (methods of interaction used by the appropriate professionals about the most significant topics and frequency and type of meetings with the Board of Statutory Auditors);
- the plan for managing the transition/passage of work product with the outgoing auditor;
- the process of analysing and identifying audit risk and determining audit plans; and
- internal governance and monitoring processes in relation to maintaining the requirements of independence and objectivity in accordance with applicable law.

(iv) The composition of the audit team (professional section) (1-100)

Information about the team that would be assigned to the engagement, directly or useful for evaluating its level of professionalism, seniority, relationships and availability, such as:

- the composition of the team that will be actually involved in the audit work;
- experience in the industry and with similar listed companies of the partners and managers and of the specialists that may be used; and
- the degree of knowledge of the Company by the partners and managers who will be involved in the audit work.

Among the quantitative elements, the following aspects were considered:

Information about the professional standard and use of resources and means, such as:

- the total cost of the audit; and
- the expected number of hours, including in relation to the different areas of work.

The Board of Statutory Auditors participated in the entire selection process and devoted several meetings during the period from September 2018 to February 2019 to that process, interacting with the firms and sometimes with their legal counsel.

Results of the selection

The analyses that were performed on the proposals and the additional information received indicated that:

- a) In regard to knowledge of the Group, both firms demonstrated that they fully understand the Group's business and its specific characteristics. The Proposing Firms demonstrated full formal and substantive compliance with the independence requirements.
- b) In regard to the characteristics of the Independent Auditors and its network, both firms have gained significant experience in auditing listed Italian firms operating in the same industry that are comparable in terms of size, organisational structure and operating complexity to the Tesmec Group.
- c) In regard to the proposed methodological approach, adequacy of the audit plan and timing of the main work, both firms have an adequate profile; the firms have developed systems and processes that are appropriate for identifying and analysing audit risks and tailoring specific approaches and audit and review plans.
- d) In regard to the composition of the team that would be assigned to the engagement, all the proposed work groups consist of individuals with qualified expertise and well-established experience in the industry. Within that area of evaluation, particular focus was placed on evaluating the responsible partner and the teams dedicated to specific areas (International Accounting Standards, Tax Area, Laws and Regulations, Information Technology).
- e) From the quantitative standpoint, the total cost set forth in the proposals received from the firms were better than that for the outgoing Independent Auditors and was in line with the Company's expectations, although there were some differences in terms of estimated total hours and hourly rates applied.

Final considerations

The Board of Statutory Auditors believes that it can submit Deloitte and PWC to the shareholders as candidates to assume the engagement to certify the 2019–2027 financial statements.

The Board of Statutory Auditors, in view of the foregoing and, specifically, having considered the results of the procedure for evaluating the qualitative and quantitative aspects described above, unanimously prefers the proposal submitted by **Deloitte** because:

- Deloitte's proposal is better from the standpoint of the greater contribution from Partners/Managers as a percentage of total expected hours. In particular, the role of the Lead Client Service Partner ("LCSP"), who would be the sole point of contact for all of the main decisions at the Italian and international level relating to the Tesmec Group's audit engagement, and the presence in the parent company's central team of an international managerial professional responsible for coordinating the audit of

the subsidiaries, particularly the French subsidiaries, which is fundamental for coordinating and performing the engagement, was viewed positively.

- Deloitte viewed its process of learning about Tesmec’s operations as part of its professional investment and will bear the cost of 25% of the estimated hours once it is fully on-boarded during the first two financial years.

Deloitte intends to use highly qualified staff to manage the transition from the previous auditor and has proposed an “immediate on-boarding” process that can be launched immediately after notification of the results of the selection procedure.

- Considering that another auditor, Funaro & CO [*sic: Co.*], is expected to be appointed to audit the United States subsidiary Tesmec USA Inc., the knowledge gained during previous and positive direct collaborative experiences between Deloitte’s LCSP and the Responsible Partner at Funaro & CO [*sic: Co.*] should make it more efficient to conduct and coordinate the engagement.
- Deloitte’s proposal is financially more competitive than PWC’s proposal.

The Board of Statutory Auditors’ Recommendation

The Board of Statutory Auditors:

- based on the procedure conducted, the proposals received, the evaluations performed and the outcomes of the same,
- considering that Article 16, paragraph 2 of the Regulation requires that the Board of Statutory Auditors’ justified recommendation contain at least two possible choices for the audit engagement so that a selection can be made, and
- considering that the cited Article 16, paragraph 2 of the Regulation requires the Board of Statutory Auditors to express a duly justified preference for one of them,

RECOMMENDS

that the Board of Directors of Tesmec S.p.A. propose to the shareholders at the Shareholders’ Meeting called for 16 April 2019 to appoint one of the following firms to perform the statutory audit for the years 2019–2027: Deloitte or PWC.

The financial terms proposed by those Independent Auditors, with a summary of their proposals, are set forth in Annex 1; between the two,

IT EXPRESSES ITS PREFERENCE

for **Deloitte & Touche S.p.A.** as the firm with the best qualitative and quantitative assessment as a result of the selection procedure performed, and thus was considered most suitable to perform the engagement, because it conforms to the identified needs of

the Company and the Group and demonstrated the expertise with which that engagement would be performed over the entire period, by dedicating resources, time and professionalism commensurate with the importance of the engagement.

Statement pursuant to Article 16, section 2 of Regulation (EU) No. 537/2014 on the specific requirements relating to the statutory audit of the accounts of public-interest entities

The Board of Statutory Auditors, acting as the Internal Control and Audit Committee, states that pursuant to Article 16, paragraph 2 of Regulation (EU) No. 537/2014 on specific requirements relating to the statutory audit of the accounts of public-interest entities, that this Recommendation was not influenced by third parties and none of the clauses referenced in section 6 of Article 16 of the Regulation applied.

Grassobbio, 28 February 2019

The Board of Statutory Auditors

Simone Cavalli

Stefano Chirico

Alessandra De Beni

ANNEX 1

SUMMARY OF THE PROPOSALS SUBMITTED BY THE INDEPENDENT AUDITORS DELOITTE & TOUCHE S.p.A.

Statutory audit of Tesmec S.p.A. 2019-2027 (*)

	Hours (**)	Fees (***)
Tesmec S.p.A.	2,000	129,000
Statutory audit of the financial statements		
Statutory audit of the Group's consolidated financial statements		
Reviews associated with signing tax returns	1,206	79,070
Limited audit of the Group's interim condensed consolidated financial statements	450	28,900
Review of the consolidated non-financial statement	120	10,000
Examination of the adequacy of the systems of internal controls	100	6,600
Expressing a conformity and consistency opinion on the Report on Operations and Report on Corporate Governance and Ownership Structures	44	2,880
Periodic review that the accounting records are being properly maintained	80	5,280
Improved proposal discount		(3,730)
Italian subsidiaries	512	30,500
Foreign subsidiaries	1,477	124,435
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Total Group	3,989	283,935

(*) does not include audit-related services

(**) For the first two years, Deloitte will not charge for 25% of the total hours once it is fully on-boarded as "professional investment" deemed essential during its "learning" phase about the Company's operations.

Mix for Italy: Partners 9%; Managers 22%; Seniors 32%; Staff 37%.

Worldwide mix: Partners 8%; Managers 19%; Seniors 33%; Staff 39%.

(***) Fees include meals, lodging, travel, secretarial and administrative expenses.

Any expenses in addition to fees beyond those indicated above that are strictly necessary to perform the aforesaid engagement shall be discussed in advance, documented and in no event shall exceed 2% of fees. The supervisory contribution and VAT are in addition to those expenses.

The fees indicated above relate to the current situation and, thus, are subject to change. In that regard, the fee adjustment clause to which Tesmec is subject based on increased volume of audit work to be performed by us will be triggered only if revenues increase by more than 30% from one financial year to the next, subject to extraordinary transactions that significantly change the Company's business. Similarly, the fee adjustment clause will reduce the fees payable by Tesmec if significant changes to the structure of the Tesmec Group occur that reduce the volume of audit work.

The fees indicated above shall be adjusted based on the percentage change in the ISTAT [*Istituto nazionale di statistica* (Italian National Statistics Institute)] cost of living index (base month February 2019) and shall take effect with the audit of the 2020 financial statements.

ANNEX 2

SUMMARY OF THE PROPOSALS SUBMITTED BY THE INDEPENDENT AUDITORS PWC S.p.A.

Statutory audit of Tesmec S.p.A. 2019-2027 (*)

	Hours (**)	Fees (***)
Tesmec S.p.A.	2,707	151,500
Statutory audit of the financial statements		
Statutory audit of the Group's consolidated financial statements		
Reviews associated with signing tax returns	1,754	97,000
Limited audit of the Group's interim condensed consolidated financial statements	423	26,500
Review of the consolidated non-financial statement	250	18,000
Examination of the adequacy of the systems of internal controls	150	8,000
Expressing a conformity and consistency opinion on the Report on Operations and Report on Corporate Governance and Ownership Structures	30	2,000
Periodic review that the accounting records are being properly maintained	100	5,000
Improved proposal discount		(5,000)
Italian subsidiaries	455	24,000
Foreign subsidiaries	1,327	123,200
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Total Group	4,489	298,700

(*) does not include audit-related services

(**) Worldwide mix: Partners 8%; Managers 18%; Seniors 42%; Staff 32%.

Fees include meals, lodging, travel, secretarial and administrative expenses.

Any expenses in addition to fees beyond those indicated above that are strictly necessary to perform the aforesaid engagement shall be discussed in advance with you, documented and in no event shall exceed 2% of fees. The supervisory contribution and VAT are in addition to those expenses.

(***) The fees indicated above relate to the current situation and, thus, are subject to change. In that regard, the fee adjustment clause to which Tesmec is subject based on increased volume of audit work to be performed by us will be triggered only if revenues increase by more than 30% from one financial year to the next, subject to extraordinary transactions that significantly change the Company's business. Similarly, the fee adjustment clause will reduce the fees payable by Tesmec if significant changes to the structure of the Tesmec Group occur that reduce the volume of audit work.

The fees indicated above shall be adjusted based on the percentage change in the ISTAT cost of living index (base month February 2019) and shall take effect with the audit of the 2020 financial statements.