

**REPORT OF THE  
BOARD OF DIRECTORS  
ON REMUNERATION**

**(PREPARED PURSUANT TO ARTICLES 123-TER OF THE CONSOLIDATED LAW ON  
FINANCE AND 84-QUATER OF THE ISSUERS' REGULATION AS WELL AS ARTICLE 7 OF  
THE SELF-REGULATORY CODE OF CONDUCT OF THE LISTED ISSUERS PROMOTED BY  
BORSA ITALIANA S.P.A.)**

**APPROVED BY THE BOARD OF DIRECTORS OF TESMEC S.P.A.  
on 14 March 2012**

## GLOSSARY

<b>TESMEC</b>	TESMEC S.p.A.
<b>Self-Regulatory Code of Conduct or Code</b>	The Self-Regulatory Code of Conduct of listed companies approved in March 2006 (and amended in March 2010) by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A.
<b>2011 Self-Regulatory Code of Conduct or 2011 Code</b>	The Self-Regulatory Code of Conduct of listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana
<b>Remuneration Committee or Committee</b>	The Remuneration Committee set up by TESMEC in accordance with the Code.
<b>Board of Directors or Board</b>	The Board of Directors of TESMEC.
<b>Board of Statutory Auditors</b>	The Board of Statutory Auditors of TESMEC.
<b>Executives with strategic responsibilities</b>	The executives, set forth in Article 65, paragraph 1- <i>quater</i> , of the Issuers' Regulation, identified if necessary by the Board of Directors.
<b>Group</b>	TESMEC and the companies controlled by it pursuant to Article 93 of the Consolidated Law on Finance (T.U.F.)
<b>Instructions accompanying the stock-exchange regulations</b>	The instructions accompanying the Regulations of the Markets organised and managed by Borsa Italiana S.p.A.
<b>Remuneration Policy or Policy</b>	The Remuneration Policy approved by the Board of Directors of 12 March 2012, described in Section I of this Report.
<b>Regulation of the Committee</b>	The Regulation of the Remuneration Committee.
<b>Issuers' Regulation</b>	The Regulation issued by CONSOB with resolution no. 11971 of 14 May 1999 on issuers, as subsequently amended and supplemented.
<b>Report</b>	This report on remuneration drawn up pursuant to Articles 123- <i>ter</i> of the Consolidated Law on Finance and Article 84- <i>quater</i> of the Issuers' Regulation as well as in compliance with Article 7 of the Code.
<b>Company</b>	TESMEC S.p.A.
<b>Consolidated Law on Finance (T.U.F.)</b>	Italian Legislative Decree no. 58 of 24 February 1998 as subsequently amended and supplemented.

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## **Introduction**

This report on the remuneration policy of the members of the administrative bodies, general managers and Executives with strategic responsibilities (the “**Report**”) was prepared and approved by the Board of Directors on 14 March 2012 pursuant to Article 123 – ter of Italian Legislative Decree no. 58 of 24 February 1998 (“**Consolidated Law on Finance (T.U.F.)**”) and Article 7 of the Self-Regulatory Code of Conduct of the listed issuers promoted by Borsa Italiana S.p.A.

The Report describes the general remuneration policy – adopted by the Board of Directors of TESMEC – with a special reference to the remuneration of the members of the administrative bodies, of the general manager and of executives with strategic responsibilities.

As provided by the Regulation adopted with CONSOB Resolution no. 17221 of 12 March 2010 on transactions with related parties, as acknowledged in the internal regulation of the Company available on its website (www.tesmec.com), the presentation of this policy to the Shareholders’ Meeting and, for all intents and purposes, its approval, once defined by the Board of Directors on proposal of the Remuneration Committee (comprised by a majority of Independent Directors), exempts the resolutions of the Company on the remuneration of its Directors and Executives with strategic responsibilities from carrying out the procedures provided by the above provisions of CONSOB concerning related parties.

## **SECTION I: REMUNERATION POLICY**

### ***a) Bodies or subjects involved in the preparation and approval of the remuneration policy, by specifying their roles, as well as bodies and subjects in charge of the correct implementation of this policy***

The Board of Directors approves the Remuneration Policy on proposal of the Remuneration Committee (See *infra sub* letter b)).

The Remuneration Policy, as described in this section of the Report, is submitted to the non-binding resolution of the Shareholders’ Meeting convened pursuant to Article 2364 of the Italian Civil Code.

The Remuneration Committee is in charge of the correct implementation of this policy.

### ***b) Intervention of the remuneration committee, composition (distinguishing the non-executive directors from the independent directors), responsibilities and operation***

The Remuneration Committee, which formulated to the Board of Directors the proposal of Remuneration Policy, consists of three directors, all non-executive and predominantly independent. The members of the Remuneration Committee include directors who have an adequate knowledge and experience in financial and remuneration policy matters.

On the Date of the Report, the Remuneration Committee consists of 3 non-executive members, including two independent members and specifically: Sergio Arnoldi (Chairman - independent), Caterina Caccia Dominioni (Member – non executive), Giocchino Attanzio (Member – independent).

Pursuant to Article 6.C.5. of the 2011 Code, the Remuneration Committee is entrusted with the following functions in connection with the remuneration policy:

- it periodically evaluates the adequacy, the overall consistency and the practical application of the remuneration policy of directors and executives with strategic responsibilities, by making use in this regard of the information supplied by the chief executive officers; it makes proposals to the Board of Directors on the matter;
- it submits proposals or expresses opinions to the board of directors on the remuneration of executive directors and other directors holding special offices as well as on the setting of performance targets related to the variable component of this remuneration; it monitors the implementation of the decisions adopted by the board itself by making sure, in particular, that the performance targets are actually achieved.

The Committee meets at least once a year and any way on the occasion of the meeting of the Board of Directors called to decide on the remuneration of the Chief Executive Officers or vested with special offices and/or of the top management of the Company as well as on any stock option plan or share allocation.

***c) Name of the independent experts, if any, who took part in the preparation of the remuneration policy***

No independent expert took part in the preparation of the remuneration policy.

***d) Purposes of the remuneration policy, the principles on which it is based and any change in the remuneration policy compared to the previous financial period***

The general policy on remuneration (and on the implementation procedures) was prepared by the Remuneration Committee during the meeting of 14 March 2012 and subsequently, on the same date, approved by the Board of Directors.

The general Remuneration policy serves to attract, motivate and retain the resources with the professional qualities required to pursue the objectives of the Company profitably. The Policy serves also as a means to align the interests of the management and of the shareholders, through the creation of a strong relation between remuneration and individual performance. The aim of the Policy is to create sustainable value in the medium to long term for the Issuer and the shareholders, as well as to make sure that the remuneration is based on the results actually obtained.

For non-executive Directors, the Remuneration Policy is not related to the economic results achieved by the Company (see the next paragraph *n*)

With reference to the 2011 financial period, the Company did not prepare – in that not contemplated by the regulations in force at that time – a specific remuneration policy.

Having said this, in comparison with the policy applied during the 2011 financial period, the general Remuneration policy, albeit newly introduced, does not diverge from the practices previously held by the company concerning remuneration.

***e) Description of the policies on fixed and variable components of remuneration, with a special attention to the indication of the relevant weight within the overall remuneration and distinguishing the short-term from the medium to long-term variable components.***

The remuneration of the executive directors, of the general manager and of the executives with strategic responsibilities will consist in general of the following elements:

- a gross annual fixed component;
- a variable component as an incentive and loyalty tool also suitable to ensure an optimal level of correlation between the remuneration of the management and the economic and

financial results of the Company in the medium term. This variable component is related to general objectives predetermined in particular on the Turnover and on the Net financial indebtedness of TESMEC S.p.A. and of the TESMEC Group, measurable and related to the creation of value for shareholders in the medium term, normally not less than twelve months. Allowing, among other things, for the type of activity carried out, it is believed that time horizons of twelve months allow to determine targets fairly consistent with the market trend in which the Company works, and material and relevant with a policy of prudent risk management. Moreover, given the type of activity of TESMEC, any postponement of the payment of a portion of the variable component is not a decisive factor for the purposes of a proper management of business risk within the preparation of this remuneration policy of the Company.

When determining the remuneration and each of its components, the Board of Directors will take account (i) of the specific contents of the delegation of powers assigned to each executive director and/or (ii) of the functions and of the role actually carried out by each executive director within the company, making sure in this way that the estimate of any variable component is consistent with the type of tasks assigned to him/her.

In particular, the remuneration is determined according to the following criteria:

- the indications on the consistency among the elements underlying the calculation of the remuneration and the set objectives;
- the correct balance between the fixed and the variable component must be in accordance with the strategic objectives and with the risk management policy of the Company, also taking account of the sector in which it operates and the nature of the business practically carried out;
- the performance targets – i.e. the economic results and any other specific target – to which the disbursement of the variable component is related are predetermined, measurable and related to the creation of value for shareholders in the medium term;

The methods for defining the variable remuneration for executive directors, the chief executive officer and the executives with strategic responsibilities will be established by the Board of Directors on the basis of the budget for each financial period with the estimate of a minimum threshold and a progression in the premium pay to be assigned in accordance with the lines defined in the following table

<b>Chief Executive Officer</b>	Premium pay accounting for 60% of the annual remuneration if 80% of the budget is reached; a premium pay accounting for 100% of the annual remuneration if 100% of the budget is reached and a premium pay accounting for 120% of the annual remuneration if the budget is exceeded by 120%.
<b>General Manager and Executives with Strategic Responsibilities</b>	Premium pay accounting for 10% of the annual remuneration if 80% of the 2011 budget is reached; a premium pay accounting for 20% of the annual remuneration if 100% of the 2011 budget is reached; a premium pay accounting for 30% of the annual remuneration if the 2011 budget is exceeded by 120%.

The Shareholders' Meeting of 23 February 2010 approved an amount of Euro 696,000 as a total remuneration of the Board of Directors of TESMEC and no remuneration is contemplated for attending committees; the amount paid to each director is all-inclusive.

The relation between the premium pay and the budget guarantees the consistency of the remuneration policy in the short-medium term with the long term, because in general the budget achieved in a financial period is considered as the new base for the following financial period, resulting in a boost to the constant growth of the company's profit. The Remuneration Committee reserved the right to introduce other indices (such as business expansion in new

markets) should the current remuneration policy is not found to be adequately long-term incentive.

The annual Budget, on which the achievement of the targets is calculated, is in turn inserted in a three-year plan. This mechanism allows the company to link the results achieved in the short term with the medium to long term objectives and always with a view to creating and increasing the value of the company over time.

On the date of this Report, no incentive plan based on financial instruments was approved.

***f) Policy followed with regard to non-monetary benefits***

The remuneration policy of the Company provides for the allocation of some non-monetary benefits to executive directors and to executives with strategic responsibilities through the “fringe benefit” formula according to the specific powers or duties assigned.

***g) With reference to variable components, description of the performance targets according to which they are assigned, distinguishing short-term variable components from medium to long-term variable components, and information on the relation between the change in the results and the change in the remuneration***

Reference is made to what is stated letter e).

***h) Methods used for assessing performance targets at the basis of the allocation of shares, options, other financial instruments or other variable components of remuneration***

This Policy does not provide for the allocation of shares, options, other financial instruments or other variable components of remuneration.

***i) Information for pointing out the consistency of the remuneration policy with the pursuit of long-term interests of the company and with the risk management policy***

According to this Policy, the performance targets outlined above and the method of payment of the variable component must be consistent with the risk management policy adopted by the Company, in that they must take account of the risks assumed by TESMEC, of the capital and liquidity required by the Company to face up to the undertaken activities.

***j) Vesting periods, deferred payment systems, by indicating the periods of deferment and the methods used for determining such periods and, if provided for, ex-post correction mechanisms***

On the date of this Report, the Company did not prepare a Policy with vesting periods, deferred payment systems or ex-post correction mechanisms.

***k) Information on any clause for the maintenance of the financial instruments in the portfolio after their acquisition, by indicating the periods of maintenance and the methods used for determining such periods***

The Remuneration Policy does not provide for any clause for the maintenance of the financial instruments in the portfolio.

***l) Policy related to the pays contemplated in case of termination of office or employer-employee relationship***

TESMEC, on the sidelines of the stock exchange price, enabled a Policy of Retention and protection of its business Know How for the strategic or high-potential figures and in particular for Executives with strategic responsibilities, a “Non-competition agreement” Policy that provides for a monthly payment of 10- 15% of RAL based on the functions covered within the organisation, in exchange for the signing by the collaborator of a Non-competition agreement that does not allow, in case of rescission for any reason, an activity in Italy/abroad at the premises of Tescmec competitors. In case of breach of Agreement, there are penalties related to each collaborator.

***m) Information on the presence of insurance covers, i.e. social security or endowment assurance, other than compulsory insurance***

In line with best practices, an insurance policy against civil liability towards third parties is in force for company bodies, general managers, if appointed, executives with strategic responsibilities, in the performance of their duties, with the aim of holding harmless the Company from the charges arising from the related compensation for damages, except in cases of malicious intent or serious misconduct.

Moreover, the Board of Directors approved an insurance package as from 2012 that provides for an Employee Benefits program for the Chairman and the Chief Executive Officer, the Managing Directors and the Executives with strategic responsibilities.

This program extends to the following categories:

- 1) Chairman and Managing Directors: Death Risk Cover and total and permanent disability, Coverage for Professional and Extraprofessional Injury and payment of medical expenses for injury and sickness, extended to the family unit. In the mentioned case, the amounts insured and the coverage guarantees are paid depending on the function covered within the Board.
- 2) Executives with strategic responsibilities: Death Risk Cover and total and permanent disability, Permanent disability for sickness, Coverage for Professional and Extraprofessional Injury and payment of medical expenses in case of injury and illness, extended to the family unit. The program completes and adds to what is already provided in the CCNL (Contratto Collettivo Nazionale di Lavoro, Collective National Labour Agreement) of Industry Executives.

***n) Applied remuneration policy with reference to: (i) independent directors, (ii) the attendance to committees and (iii) the carrying-out of special offices.***

In the light of what is recommended by the Self-Regulatory Code of Conduct, the remuneration of non-executive Directors is not related to the economic results achieved by the Company and/or by the Group.

The remuneration of non-executive Directors, as reported in the previous letter of the Report, is exclusively represented by a fixed component, resolved by the ordinary Shareholders’ Meeting.

The remuneration policy applied by the Company with respect to independent Directors is the same policy applied for non-executive Directors.

*o) Instructions on the possible use, as reference, of remuneration policies of other companies*

The Remuneration Policy was prepared by the Company without using the policy of other companies as reference.

## **SECTION II – FEES RECEIVED DURING THE 2011 FINANCIAL PERIOD BY THE MEMBERS OF THE BOARD OF DIRECTORS AND OF THE BOARD OF STATUTORY AUDITORS**

The fees relevant to the 2011 financial period of the members of the Board of Directors and of the Board of Statutory Auditors as well as of the General Manager and of Executives with strategic responsibilities are illustrated by name in this section of the Report.

\* \* \*

### **FIRST PART – ITEMS FORMING THE REMUNERATION**

This part of Section II provides an adequate representation of each of the items forming the remuneration of the members of the Board of Directors and of the Board of Statutory Auditors as well as of the General Manager and of Executives with strategic responsibilities, with reference to the 2011 financial period.

These items are reflected in the tables in the Second Part of this Section.

#### **1.1 Board of Directors**

On 23 February 2010, the Board of Directors resolved to assign:

- A) as an annual remuneration for the powers of ordinary and extraordinary administration of the company granted to the Chairman and Chief Executive Officer, Ambrogio Caccia Dominioni:
  - i) a fixed fee of Euro 450,000 including the one for the office of director;
  - ii) another variable fee, recalculated each year.
- B) as an annual remuneration for the office of Vice Chairman granted to Alfredo Brignoli: a fixed fee of Euro 40,000 whereas for the Vice Chairman office granted to Gianluca Bolelli a fixed fee of Euro 50,000. Both fees also include those for the office of director;
- C) as an annual remuneration for the specific powers as special project manager, as well as supervisor of the Company's finance area with powers of direction, to the director, Michele Milani: a fixed fee of Euro 50,000 including those for the office of director;

The Board of Directors on 11 May 2011, upon proposal by the Remuneration Committee, resolved to assign a premium pay to the Chairman and Chief Executive Officer, Ambrogio Caccia Dominioni relevant to the 2011 financial period:

- accounting for 60% of the annual remuneration if 80% of the budget is reached;
- accounting for 100% of the annual remuneration if 100% of the budget is reached; and
- accounting for 120% of the annual remuneration if the budget is exceeded by 120%.

It should be noted that below the above achievement percentages, no variable remuneration is due.

The Company put at the disposal of the Chairman and Chief Executive Officer, Ambrogio Caccia Dominioni, a company car suitable for the performance of the powers assigned to him. The company cars represent the company's fleet and are granted for a dual-purpose use (for private use and for work) through the Fringe Benefit formula.

The cars are granted with the Full Renting formula i.e. as a long-term rental, formula that is the most widespread to date. TESMEC established an internal regulation ("Car Policy") for granting company cars, which provides for the terms and the methods of use.

#### **1.2 Board of Statutory Auditors**

During the 2011 financial period, the Board of Statutory Auditors consisted of the following statutory auditors:

- Simone Cavalli (Chairman), appointed by the Shareholders' Meeting of 23 February 2010; the remuneration relevant to the 2011 financial period totals Euro 37,644;

- Stefano Chirico, appointed by the Shareholders' Meeting of 23 February 2010; the remuneration relevant to the 2011 financial period totals Euro 27,241;
- Claudio Melegoni, appointed by the Shareholders' Meeting of 23 February 2010; the remuneration relevant to the 2011 financial period totals Euro 25,428.

### **1.3 General Manager and Executives with Strategic Responsibilities**

On 11 May 2011, the Board of Directors, upon proposal by the Remuneration Committee, resolved to assign a premium pay to the General Manager, Paolo Mosconi, and to the Finance and Control Manager, Andrea Bramani, relevant to the 2011 financial period:

- a premium pay accounting for 10% of the annual remuneration if 80% of the budget is reached;
- a premium pay accounting for 20% of the annual remuneration if 100% of the budget is reached; and
- a premium pay accounting for 30% of the annual remuneration if the budget is exceeded by 120%.

It should be noted that below the above achievement percentages, no variable remuneration is due.

The Company put at the disposal of the General Manager and of the Executives with strategic responsibilities company cars fit for the carrying-out of their professional duties. The company cars represent the company's fleet and are granted for a dual-purpose use (for private use and for work) through the Fringe Benefit formula.

The cars are granted with the Full Renting formula i.e. as a long-term rental, formula that is the most widespread to date. TESMEC established an internal regulation ("Car Policy") for granting company cars, which provides for the terms and the methods of use.

### **1.4 Agreements that provide payments in the case of early termination of the employer-employee relationship**

There are no specific agreements that provide payments in the case of early termination of the employer-employee relationship

## **SECOND PART - TABLES**

The following tables break down the fees for the members of the Board of Directors and Board of Statutory Auditors as well as of the General Manager and Executives with strategic responsibilities, with reference to the 2011 financial period paid or to be paid by the Company and by subsidiaries and associates with reference to the 2011 financial period.

**Table 1: Fees paid to the members of the Board of Directors and Board of Statutory Auditors as well as of the General Manager and Executives with strategic responsibilities, with reference to the 2011 financial period during the 2011 financial year**

Name and Surname	Office	Company	Period in which the office was held	Termination of office	Fixed fees	Fees for attending committees	Non-equity variable fees	Non-monetary benefits	Other fees	Total	Fair value of equity fees	Employee termination benefits
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	Tesmec S.p.A.	2011	31/12/2012	450,000	-	-	15,000	-	465,000	-	-
Alfredo Brignoli	Vice Chairman	Tesmec S.p.A.	2011	31/12/2012	40,000	-	-	-	-	40,000	-	-
Gianluca Bolelli	Vice Chairman	Tesmec S.p.A.	2011	31/12/2012	52,000	-	-	-	70,000	122,000	-	-
Gianluca Vacchi	Director	Tesmec S.p.A.	2011	31/12/2012	12,000	-	-	-	-	12,000	-	-
Gioacchino Attanzio	Director	Tesmec S.p.A.	2011	31/12/2012	25,000	-	-	-	-	25,000	-	-
Guido Giuseppe Maria Corbetta	Director	Tesmec S.p.A.	2011	31/12/2012	12,000	-	-	-	-	12,000	-	-
Luca Poggi	Director	Tesmec S.p.A.	2011	31/12/2012	12,480	-	-	-	-	12,480	-	-
Michele Carlo Felice Milani	Executive Director	Tesmec S.p.A.	2011	31/12/2012	50,000	-	-	-	-	50,000	-	-
Sergio Arnoldi	Director	Tesmec S.p.A.	2011	31/12/2012	20,800	-	-	-	-	20,800	-	-
Caterina Caccia Dominioni	Director and Secretary	Tesmec S.p.A.	2011	31/12/2012	26,000	-	-	-	15,600	41,600	-	-
Paolo Luigi Mosconi	General Manager	Tesmec S.p.A.	2011	N/A	210,000	-	-	12,000	-	222,000	-	-
	Strategic Managers(total n.2)	Tesmec S.p.A. e Tesmec USA*	2011	Italy N/A USA 31.03.2012	275,079	-	-	10,000	-	285,079	-	-
<b>(I) Total in the company preparing the financial statements</b>					<b>1,185,359</b>	<b>-</b>	<b>-</b>	<b>37,000</b>	<b>85,600</b>	<b>1,307,959</b>	<b>-</b>	<b>-</b>
Ambrogio Caccia Dominioni	Chairman of the BoD	Tesmec USA Inc.	2011	31/03/2012	-	-	-	-	-	-	-	-
Ambrogio Caccia Dominioni	Chairman of the BoD	Tesmec Service S.p.A.	2011	31/12/2012	-	-	-	-	-	-	-	-
Ambrogio Caccia Dominioni	Director	Tesmec SA	2011	31/12/2013	-	-	-	-	-	-	-	-
<b>(II) Fees from subsidiaries and associates</b>					<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(III) Total</b>					<b>1,185,359</b>	<b>-</b>	<b>-</b>	<b>37,000</b>	<b>85,600</b>	<b>1,307,959</b>	<b>-</b>	<b>-</b>

\* Fee in USD converted at the 2011 average exchange rate USD/Euro 1.39

**SECTION III: INFORMATION ON THE EQUITY INVESTMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND OF THE BOARD OF STATUTORY AUDITORS**

The following table indicates by name the equity investments held by the members of the Board of Directors and of the Board of Auditors in TESMEC and in the companies controlled by the latter

<b>Name and surname</b>	<b>Office</b>	<b>Subsidiary company</b>	<b>Number of shares held at the end of the 2010 financial period</b>	<b>Number of shares purchased</b>	<b>Number of shares sold</b>	<b>Number of shares held at the end of the 2011 financial period</b>
Ambrogio Caccia Dominioni	Chairman and Chief Executive Officer	Tesmec S.p.A.	-	60,000	-	60,000
Alfredo Brignoli	Vice Chairman	Tesmec S.p.A.	50,000	-	-	50,000
Gianluca Bolelli	Vice Chairman	Tesmec S.p.A.	-	34,150	-	34,150
Michele Carlo Felice Milani	Executive Director	Tesmec S.p.A.	60,000	-	-	60,000
Gianluca Vacchi	Director	Tesmec S.p.A.	7,973,600	-	-	7,973,600
Leonardo Giuseppe Marseglia	Independent Director	Tesmec S.p.A.	5,714,000	-	-	5,714,000