

TXT e-solutions S.p.A.

2018 REPORT ON CORPORATE  
GOVERNANCE  
SHAREHOLDING STRUCTURE

Pursuant to Article 123-*bis* of the Consolidated Law on Finance

## Contents

1. ISSUER'S PROFILE .....	6
2. INFORMATION ON THE SHAREHOLDING STRUCTURE (Article 123- <i>bis</i> , paragraph 1 of the Consolidated Law on Finance) at 31 December 2018.....	7
a) Share capital structure (Article 123- <i>bis</i> , paragraph, 1, letter a), of the Consolidated Law on Finance).....	7
b) Share transfer restrictions (Article 123- <i>bis</i> , paragraph 1, letter b), of the Consolidated Law on Finance).....	7
c) Significant shareholdings (Article 123- <i>bis</i> , paragraph 1, letter c), of the Consolidated Law on Finance).....	7
d) Shares with special control rights (Article 123- <i>bis</i> , paragraph 1, letter d), of the Consolidated Law on Finance) .....	8
e) Employee shareholdings: exercise of voting rights (Article 123- <i>bis</i> , paragraph 1, letter e), of the Consolidated Law on Finance).....	8
f) Restrictions on voting rights (Article 123- <i>bis</i> , paragraph 1, letter f), of the Consolidated Law on Finance).....	8
g) Shareholders' agreements (Article 123- <i>bis</i> , paragraph 1, letter g), of the Consolidated Law on Finance).....	8
h) Change of control clauses (Article 123- <i>bis</i> , paragraph 1, letter h) of the Consolidated Law on Finance) and provisions on takeover bids as per the Company's By-Laws (Articles 104, paragraph 1- <i>ter</i> , and 104- <i>bis</i> , paragraph 1) .....	8
i) Agreements between the Company and its directors providing for a severance package in case of resignation, dismissal without just cause or end of term of office because of a takeover bid.....	8
l) Provisions applicable to the appointment and replacement of directors, as well as to the amendment of the By-Laws, if different from the relevant supplementary legal and regulatory provisions .....	9
m) Delegated powers to increase share capital and authorisation to purchase treasury shares (Article 123- <i>bis</i> , paragraph 1, letter m), of the Consolidated Law on Finance).....	9
Management and co-ordination activities (pursuant to Article 2497 <i>et seq.</i> of the Italian Civil Code) .....	10
3. COMPLIANCE (Article 123- <i>bis</i> , paragraph 2, letter a), of the Consolidated Law on Finance)	10
4. BOARD OF DIRECTORS.....	10
4.1. Appointment and replacement (Article 123- <i>bis</i> , paragraph 1, letter L), of the Consolidated Law on Finance).....	10
4.2. Composition (Article 123- <i>bis</i> , paragraph 2, letter d) and d- <i>bis</i> ), of the Consolidated Law on Finance) .....	13

4.3. Role of the Board of Directors (Article 123- <i>bis</i> , paragraph 2, letter d) of the Consolidated Law on Finance).....	18
4.4. Delegated bodies .....	21
4.5. Other executive directors.....	29
4.6. Independent directors.....	29
4.7. Lead Independent Director .....	31
5. PROCESSING COMPANY INFORMATION .....	31
6. COMMITTEES WITHIN THE BOARD (Article 123- <i>bis</i> , paragraph 2, letter d), of the Consolidated Law on Finance) .....	33
7. NOMINATION COMMITTEE.....	33
8. REMUNERATION COMMITTEE.....	33
9. REMUNERATION OF DIRECTORS .....	36
10. RISKS AND INTERNAL CONTROLS COMMITTEE.....	39
11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM.....	42
11.1. Executive Director in charge of the internal control and risk management system.....	43
11.2. Manager responsible for Internal Audit .....	44
11.3. Organisation model pursuant to Legislative Decree No. 231/2001 .....	45
11.4. External Auditors.....	47
11.5. Manager responsible for preparing corporate accounting documents .....	47
11.6. Coordination between the parties involved in the internal control and risk management system .....	47
12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES .....	48
13. APPOINTMENT OF STATUTORY AUDITORS.....	53
14. COMPOSITION AND FUNCTIONS OF THE BOARD OF STATUTORY AUDITORS (Article 123- <i>bis</i> , paragraph 2, letters d) and d- <i>bis</i> ), of the Consolidated Law on Finance).....	55
15. RELATIONSHIP WITH SHAREHOLDERS .....	58
16. SHAREHOLDERS' MEETINGS (Article 123- <i>bis</i> , paragraph 2, letter c), of the Consolidated Law on Finance).....	58
17. OTHER CORPORATE GOVERNANCE ISSUES (Article 123- <i>bis</i> , paragraph 2, letter a) of the Consolidated Law on Finance).....	61
18. CHANGES AFTER THE END OF THE REPORTING PERIOD.....	61
19. CONSIDERATIONS ON THE LETTER DATED 21 DECEMBER 2018 FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE .....	61
TABLE 1: Information on the shareholding structure.....	63
TABLE 2: Composition of the Board of Directors and Committees.....	64

TABLE 3: Composition of the Board of Statutory Auditors..... 65

## GLOSSARY

**2014 Corporate Governance Code:** the Corporate Governance Code of listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Board:** the Issuer's Board of Directors.

**Civil Code:** the Italian Civil Code.

**Consob Issuers' Regulation:** Regulation 11971/1999 (and subsequent amendments) concerning issuers issued by Consob.

**Consob Regulation on Markets:** Consob Regulation 20249/2017 concerning markets.

**Consob Regulation on transactions with related parties:** Regulation 17221 of 12 March 2010 (and subsequent amendments) on transactions with related parties issued by Consob.

**Financial Year:** the accounting period to which the Report refers.

**Issuer:** the issuer of listed shares to which the Report refers.

**Report:** the report on corporate governance and shareholding structure drafted by companies pursuant to Article 123-*bis* of the Consolidated Law on Finance (TUF).

**TUF:** Legislative Decree No. 58 dated 24 February 1998 (Consolidated Law on Finance).

## 1. ISSUER'S PROFILE

This report illustrates the Corporate Governance system adopted by TXT e-solutions S.p.A. (hereinafter the "Company" or "TXT") and its compliance with the Corporate Governance Code of listed companies (hereinafter the "Code") pursuant to Article 124-*bis* of the Consolidated Law on Finance, Article 89-*bis* of the Consob Issuers' Regulation and Article IA.2.6 of the Instructions accompanying Borsa Italiana S.p.A.'s Rules.

Within the scope of the measures aimed at enhancing value for shareholders and ensuring transparent management actions, TXT defined an articulated and homogeneous system of rules of conduct concerning both its own organisational structure and relations with stakeholders – in particular with shareholders – that comply with the most advanced Corporate Governance standards. The Corporate Governance system adopted by the Board is in line with the principles stated in the Code aimed at ensuring proper and transparent corporate information and creating value for shareholders through an effective management of the Company.

Corporate bodies are listed below:

- Shareholders' Meeting
- Board of Directors
- Remuneration Committee
- Risks and Internal Controls Committee
- Transactions with related parties Committee
- Board of Statutory Auditors

The duly constituted Shareholders' Meeting (the "Shareholders' Meeting") represents the Company through its resolutions. The resolutions are adopted in compliance with the law and the By-Laws; they are binding on all shareholders, including those who are absent or dissenting.

The Board of Directors (the "Board") is assigned with the tasks of managing the Company on an exclusive basis. It is appointed by the Shareholders' Meeting every three years. Its members appoint a Chairman and a CEO/CEOs and define their powers.

The Remuneration Committee is constituted by Board members and has consultative and advisory functions. In particular, it puts forward opinions and proposals to the Board of Directors concerning the remuneration of the Company's executive directors and managers with strategic responsibilities.

The Risks and Internal Controls Committee is constituted by Board members empowered to assess the adequacy of internal control and risk management systems, and to express an opinion on the control procedures.

The Transactions with Related Parties Committee is a body constituted within the Board that assesses the Company's interest in carrying out Transactions with Related Parties, as well as the appropriateness and essential correctness of the relative conditions.

The Board of Statutory Auditors is responsible for ensuring compliance with the law and the Company's By-Laws as well as for overall management controls. It is not assigned with the task of auditing company accounts, which is the responsibility of External Auditors, registered in a specific Register. The latter are vested with the power to verify, during the reporting period, that company books are properly managed, accounting items are correctly recorded and statutory and

consolidated financial statements are in line with accounting entries and audits performed, and that all accounting documents are compliant with relevant regulations.

The corporate bodies' powers and tasks comply with the law, the Company's By-Laws and bodies' resolutions passed from time to time.

A copy of the annual report is available at the Company's registered office and on the website [www.txtgroup.com](http://www.txtgroup.com) under the "governance/corporate-governance-reports" section.

The Company falls under the definition of SME since 2014 in pursuance of Article 1, paragraph 1, letter *w-quater* 1) of the Consolidated Law on Finance and Article 2-ter of the Consob Issuers' Regulation. The average capitalisation in 2017 was € 123.1 million and 2017 Revenues came to € 35.9 million.

## **2. INFORMATION ON THE SHAREHOLDING STRUCTURE (Article 123-bis, paragraph 1 of the Consolidated Law on Finance) at 31 December 2018**

a) Share capital structure (Article 123-bis, paragraph, 1, letter a), of the Consolidated Law on Finance)

The Company's share capital is fully made up of ordinary shares. At 31 December 2018, the subscribed and paid-in share capital was equal to € 6,503,125.00, broken down into 13,006,250 shares with a par value of €0.50 each.

In addition, the Shareholders' Meeting of 22 April 2016 approved a stock option plan providing for the allocation of a maximum of 1,200,000 shares to the Company's top managers, dependent on achieving specific performance goals. In light of sale of the TXT Retail Division, on 3 August 2017 the Board of Directors resolved the partial early vesting of option rights and the cancellation of the remaining options. 158,750 options were assigned, vested and exercised and the remaining 1,041,250 were cancelled or not assigned. The plan ended on 30 June 2018 and no residual options are in circulation.

b) Share transfer restrictions (Article 123-bis, paragraph 1, letter b), of the Consolidated Law on Finance)

There are no share transfer restrictions.

c) Significant shareholdings (Article 123-bis, paragraph 1, letter c), of the Consolidated Law on Finance)

As far as significant shareholdings in TXT are concerned (shareholders owning over 3% of the share capital), see Table 1 attached to this Report.

These shareholdings derive from deposits made at the time of the last Shareholders' Meeting held on 19 April 2018 and the company has not received any communications or notifications of changes as at 31 December 2018.

This information is based on the information contained in the Shareholders' Register and in communications by shareholders pursuant to Article 120 of the Consolidated Law on Finance, as at 31 December 2018.

d) Shares with special control rights (Article 123-*bis*, paragraph 1, letter d), of the Consolidated Law on Finance)

No shares with special controlling interests have been issued.

e) Employee shareholdings: exercise of voting rights (Article 123-*bis*, paragraph 1, letter e), of the Consolidated Law on Finance)

The By-Laws do not envisage any provisions on the exercise of voting rights by employee shareholders.

f) Restrictions on voting rights (Article 123-*bis*, paragraph 1, letter f), of the Consolidated Law on Finance)

There are no restrictions on voting rights.

g) Shareholders' agreements (Article 123-*bis*, paragraph 1, letter g), of the Consolidated Law on Finance)

No shareholders' agreements pursuant to Article 122 of the Consolidated Law on Finance have been notified to the Company.

h) Change of control clauses (Article 123-*bis*, paragraph 1, letter h) of the Consolidated Law on Finance) and provisions on takeover bids as per the Company's By-Laws (Articles 104, paragraph 1-*ter*, and 104-*bis*, paragraph 1)

On 27 July 2018, the Company entered into a loan agreement with Banca Nazionale del Lavoro S.p.A for € 10 million, maturing in 5 years. This loan envisages the faculty for the bank to withdraw from the agreement in the event there is a Change of Control, in other words on occurrence of an event or a series of events due to which the shareholder Laserline S.p.A. reduces its investment in the share capital under 20%.

On 1 August 2018, the Company entered into a loan agreement with Unicredit S.p.A. for Euro 20 million, maturing in 5 years. This loan envisages the obligation to fully repay it in advance without the application of any commission within 15 days as from when Enrico Magni ceases to hold, directly or indirectly, also via third party companies, an investment of at least 20% of the share capital.

The Company and its subsidiaries did not enter into any other significant agreements that are effective, change or terminate if the Company's controlling interests change.

i) Agreements between the Company and its directors providing for a severance package in case of resignation, dismissal without just cause or end of term of office because of a takeover bid

At 31 December 2018, no such agreement was entered into.



Disclosures pursuant to Article 123-*bis*, paragraph 1, letter i) are provided in the Remuneration Report, published pursuant to Article 123-*ter* of the Consolidated Law on Finance.

**l) Provisions applicable to the appointment and replacement of directors, as well as to the amendment of the By-Laws, if different from the relevant supplementary legal and regulatory provisions**

At 31 December 2018, there were no provisions different from the applicable legal or regulatory provisions.

The section of the Report dedicated to the board of directors (Section 4.1), illustrates the rules which regulate the appointment and replacement of the members of the management body.

**m) Delegated powers to increase share capital and authorisation to purchase treasury shares (Article 123-*bis*, paragraph 1, letter m), of the Consolidated Law on Finance)**

At 31 December 2018, there were no delegated powers to increase share capital.

On 19 April 2018, the Company's Shareholders' Meeting revoked the previous authorisation to purchase treasury shares and empowered the Board of Directors to proceed, also through delegated parties, pursuant to Article 2357 of the Italian Civil Code, with the purchase, in one or more tranches, for a period of 18 months as from the resolution, of TXT e-solutions S.p.A. ordinary shares up to the legal maximum amount of 20% of the share capital. The minimum payment for the purchase must not be lower than the par value of TXT e-solutions S.p.A. shares, and the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00 (twenty-five/00).

The Shareholders' Meeting also authorised the Board of Directors, pursuant to Article 2357-*ter* of the Italian Civil Code, to transfer – also through delegated parties, at any time, in whole or in part, in one or more tranches and even before the purchases have been completed - the treasury shares purchased, assigning the Board the power to establish, on a case-by-case basis and in compliance with the legal and regulatory provisions, the suitable deadlines, means and conditions, without prejudice to the fact that disposal of the shares may take place for a minimum amount that is not lower than the par value of such shares. The purposes for which the purchase and disposal of treasury shares was authorised are those permitted by the applicable regulations in effect, and include:

- a) To conduct operations such as the sale and exchange of treasury shares for the acquisition of shareholdings, or as part of any strategic agreements within the realm of the Company's investment policy;
- b) To establish the necessary funding to carry out stock option plans approved by the Shareholders' Meeting;
- c) To carry out investments and divestments of treasury shares if the trend in prices or the amount of available liquidity make such a transaction feasible at the economic level;
- d) To support the liquidity of shares on the market, in order to encourage regular trading and avoid price shifts that are not in line with the market, strengthening - in accordance with the applicable legal and regulatory provisions - price stability during the more delicate phases of negotiations.

This purchase will be made possible by using the share premium reserve for an amount equal to the value of the treasury shares purchased.

At the end of the reporting period, 1,359,717 treasury shares are recognised in the Company's financial statements (1,268,321 at 31 December 2017), equal to 10.45% of the share capital, for a total par value of € 5,196,790 (€ 3.82 per share) and a market value of € 11,122,485 (share price at 31 December 2018 equal to € 8.18). This purchase is possible by using the share premium reserve for an amount equal to the value of the treasury shares purchased. During 2018, 485,838 treasury shares were acquired on the market and 354,204 shares delivered to the sellers as part of the payment for the acquisition of Cheleo and 40,238 shares were delivered to the employees who exercised their Stock Options. As at 31 December 2018, all options assigned to employees had been exercised.

Management and co-ordination activities (pursuant to Article 2497 *et seq.* of the Italian Civil Code)

The Company is not subject to any management and coordination activities pursuant to Article 2497 *et seq.* of the Italian Civil Code.

### **3. COMPLIANCE (Article 123-*bis*, paragraph 2, letter a), of the Consolidated Law on Finance)**

The Company adopted the Corporate Governance Code for listed companies of March 2006 (and subsequent amendments). Approved by the Corporate Governance Committee, this Code is available to the public on the Committee's website at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

The Issuer and its strategically important subsidiaries are not subject to non-Italian legal provisions affecting the Company's corporate governance structure.

## **4. BOARD OF DIRECTORS**

4.1. Appointment and replacement (Article 123-*bis*, paragraph 1, letter L), of the Consolidated Law on Finance)

The Company is managed by a Board of Directors consisting of three to fourteen members, as decided by the Ordinary Shareholders' Meeting upon appointment. Directors are appointed in compliance with current applicable regulations on gender balance as specified below.

The director's position is subject to compliance with the respectability, professionalism and independence requirements pursuant to the provisions applicable to the Company, and with those provided for by the codes of conduct issued by the company managing regulated markets.

If one or more members leave office during the financial year, those remaining in office replace them through a resolution approved by the Board of Statutory Auditors, as long as the majority of Board members is appointed by the Shareholders' Meeting.

If the leaving members had been appointed by minorities (as hereafter defined), the new members will be chosen by the Board from among those belonging to the leaving members' minority list. In the event of replacement, the Board of Directors must also ensure compliance with current regulations on gender balance. The new members will hold office until the next Shareholders' Meeting.

Board Members are appointed by the Shareholders' Meeting on the basis of lists in which candidates must be progressively included. Shareholders who, alone or together with other shareholders, reach at least the share capital percentage provided for by the law or by Consob pursuant to Article 147-ter, paragraph 1, of the Consolidated Law on Finance (currently at 4.5%) have the right to submit the lists. The minimum shareholding requirement for the submission of lists is met based on the number of shares held by Shareholders upon submission. Related certification may be provided after the deposit but within the deadline scheduled for the publication of lists by the issuer.

Each shareholder can submit, or participate with other shareholders in the submission of, only one list and each candidate can stand in only one list, under penalty of being ineligible to qualify as a candidate.

The lists shall be deposited at the issuer's offices no later than 25 days before the date fixed for the Shareholders' Meeting resolving on the appointment of Board of Directors' members and they shall be available to the public at the Company's registered office, on its website, and by any other means provided for by Consob Regulation at least 21 days before the date fixed for the Shareholders' Meeting.

Within the above-mentioned deadlines, each list must also be submitted together with the declarations in which individual candidates accept their candidacy and certify the absence of ineligibility and incompatibility reasons and the possession of relevant regulatory requirements, the candidate's CV and the existence of any independence requirements pursuant to Article 148, paragraph 3 of the Consolidated Law on Finance. The shareholders shall prove they own the number of shares necessary for submitting the lists by providing and/or sending a copy of the notices issued by the relevant parties to the Company's registered office, at least three days before the date scheduled for the Shareholders' Meeting on first call. The lists must show which candidates comply with the independence requirements provided for by the law.

Each person entitled to vote may vote for just one list.

The appointment of directors is as follows:

- in the event that more than one list is submitted:
  - a) four-fifths of Board members are selected from the list that received the highest number of votes, based on the list's progressive order and rounding to the lower unit, in case of decimals;
  - b) the other Board members are selected from the list ranking second, based on the list's progressive order, as long as said list is not directly or indirectly connected with the shareholders who submitted or voted for the list receiving the highest number of votes; in the event that several lists obtained the same number of votes, a run-off will be held between said lists and all the shareholders participating in the Shareholders' Meeting will cast their vote. The candidates belonging to the two lists receiving the majority of votes are elected;

- if only one list is submitted, directors are selected from that list, based on the list's progressive order until the number of directors provided for by the Shareholders' Meeting is reached;
- if no list is submitted or the number of elected candidates is not sufficient with respect to the number of directors required by the Shareholders' Meeting, directors are appointed by the Shareholders' Meeting through a resolution passed by the type of majority required by the law.

The lists with three or more candidates must include a gender mix, as provided for in the Shareholders' Meeting's notice, so that the Board of Directors' composition complies with current regulations on gender balance.

In any case, the appointed directors shall include at least one independent director, or the number of directors provided for by the regulations applicable to the Company upon appointment. If the independent director is not elected on the basis of the above-mentioned voting procedure, he/she will be appointed in place of the last director selected from the list he/she belongs to, giving priority to the independent director belonging to the list that received the greatest number of votes.

The minimum gender mix requirements provided for by regulations applicable to the Company must be complied with upon directors' appointment. If, following the election of candidates based on lists, the Board of Directors' composition does not comply with the gender mix requirements, a director of the least represented gender shall be appointed in place of the last director selected from the list to which he/she belongs, giving priority to the director of the least represented gender belonging to the list that received the majority of votes. Finally, if said procedure does not ensure within the Board the minimum gender mix requirements provided for by regulations, directors belonging to the least represented gender shall be appointed by the Shareholders' Meeting through a resolution passed by the type of majority required by the law without any restriction in terms of lists, and shall replace, if necessary to reach the number of board members required by the Shareholders' Meeting, the last elected candidate taken from the list that received the majority of votes.

In addition to the provisions of the Consolidated Law on Finance, the Company is not subjected to other provisions regarding the composition of the Board of Directors (such as industry provisions).

The Board of Directors has not established, within the Board, any Nomination Committee, since that function is directly performed by the Board, owing to the Company's shareholding structure and Board's size.

At its meeting of 10 May 2012 the Board of Directors decided not to adopt a succession plan for executive directors (Criterion 5.C.2.), on the basis of the criterion of proportionality of procedural costs and complexity not justified by the characteristics, dimensions, organisational structure, nature, scope and framework of the activities carried out by TXT. The assessment was updated and confirmed during the Board meetings on 8 March 2017 and 8 March 2018.

## 4.2. Composition (Article 123-bis, paragraph 2, letter d) and d-bis), of the Consolidated Law on Finance)

In accordance with the Company's By-Laws, the Board of Directors has a minimum of 3 and a maximum of 14 members, pursuant to the resolution passed by the Ordinary Shareholders' Meeting upon appointment.

Board members' term of office lasts for three financial years; afterwards they may be re-elected. The current Board includes 7 members, of whom 4 are executive directors and 3 are independent directors. Pursuant to Article 3 of the Code, the latter do not have any economic relations with the Company, its subsidiaries, executive directors or shareholders such as to prejudice their judgement. In addition, they do not hold, directly or indirectly, any controlling interests and they do not enter in any shareholders' agreements to control the Company.

All members of the Board of Directors have been appointed by the Shareholders' Meeting held on 21 April 2017 and shall remain in office up until approval of the Financial Statements at 31 December 2019.

During the Shareholders' Meeting held on 21 April 2017, two lists were submitted. The majority list was submitted by Alvise Braga Illa, with the following names: Alvise Braga Illa, Marco Edoardo Guida, Stefania Saviolo (independent candidate director), Fabienne Anne Dejean Schwalbe (independent candidate director) and Paolo Matarazzo (all elected). The minority list was submitted by E-business consulting S.A. with the names of Andrea Casanova, Andrea Lanciani and Teresa Cristiana Naddeo (independent candidate director). From this list Andrea Casanova, first on the list, and Teresa Cristiana Naddeo (independent director), third on the list, were appointed to replace Andrea Lanciani, second on the list, to allow a gender balance on the Board.

The shareholders declared that there are no connections between the lists. The majority list received 55.36% of votes; the minority list 43.63%.

Following the resignation of the director Andrea Casanova on 3 August 2017, the Board of Directors in the same session appointed Andrea Lanciani by co-option, as the first candidate not elected from the same minority list voted on by the Shareholders' Meeting on 21 April 2017. On 16 March 2018, a communication was received by the Company from Andrea Lanciani by means of which he declared his unconditional willingness not to be confirmed in the office of director of the Company. On 16 April 2018, a communication was received by the company from Laserline S.p.A. disclosing the intention to propose the candidature of Enrico Magni for the appointment to the office of director. The shareholders' meeting held on 19 April 2018 appointed Enrico Magni as board director with the favourable vote of 95.75% of the participants.

On 16 March 2018, the independent director Teresa Cristiana Naddeo handed in her resignation with effective as from the shareholders' meeting held on 19 April 2018. On 23 March 2018, the shareholder Laserline S.p.a. requested that the agenda of the shareholders' meeting be added to for the appointment of a new director for the purpose of re-establishing the number of 7 directors resolved. On 16 April 2018, a communication was received by the company from Laserline S.p.A. disclosing the intention to propose the candidature of Valentina Cogliati for the appointment to the office of director. The shareholders' meeting held on 19 April 2018 appointed Valentina Cogliati as board director with the favourable vote of 95.75% of the participants. The Board meeting held on 19

April 2018 checked the independence requirements of Valentina Cogliati both for the purposes of Article 148.3 of the Consolidated Law on Finance and the Corporate Governance Code - Criterion 3.C.1. and 3.C.2.

Directors Alvise Braga Illa, Marco Edoardo Guida, Stefania Saviolo and Fabienne Anne Dejean Schwalbe, elected by the Shareholders' Meeting held on 21 April 2017, had already been serving as directors. The director Paolo Matarazzo was a director of the company from 23 April 2008 to 10 May 2012.

During the Board meeting on 21 April 2017, Alvise Braga Illa was appointed as Chairman and Marco Edoardo Guida as Chief Executive Officer, and during the Board meeting held on 10 May 2017 Enrico Magni was granted the office of Chief Executive Officer.

The professional experiences of each director (Article 144-*decies* of the Consob Issuers' Regulation) are indicated below:

#### Alvise Braga Illa

Born in Segovia (Spain) on 12 December 1939.

After graduating from Politecnico di Milano, Mr Braga Illa worked for ten years as a researcher and professor at the Lincoln Laboratory and the Massachusetts Institute of Technology, where he was also in charge of the Optical Communications Group and Network Systems. Mr Braga Illa managed Italtel R&D Laboratories, founded Zeltron S.p.A. and led the Ducati Energia restructuring process as General Manager. Mr Braga Illa founded TXT Automation Systems, sold to ABB in 1997, and TXT e-solutions in 1989.

#### Enrico Magni (in office as from 19 April 2018)

Born in Sulbiate (MI) on 7 January 1956.

Enrico Magni is a qualified industrial technician and has created and developed numerous entrepreneurial initiatives over the last 30 years. He is the Chairman of the Board of Directors of numerous companies, including Laserline Safety, Laserfin, Laserline Digital Signage, Laserline Lighting Solutions, HSPI, RT Radio Trevisan, Nanotech Analysis. He acquired and developed for over 10 years the Lutech group, establishing a process of strong growth in revenues with a solid systematic development and numerous acquisitions. Since May 2018 he has covered the role of CEO of the TXT Group.

#### Marco Edoardo Guida

Born in Milan on 12 September 1961.

After graduating in Electronic Engineering, Mr Guida was in charge of a Computer Integrated Manufacturing team at Pirelli Informatica until 1994, when he joined TXT e-solutions. From 2000 onwards Mr Guida has been appointed as Vice Chairman and subsequently as Manager of International Operations, effectively converting TXT from an Italian company to an international group, by managing the acquisition and integration of foreign companies. In 2006 he was appointed as General Manager of TXT e-solutions and in January 2009 he was appointed as CEO.

#### Paolo Matarazzo

Born in Milan on 5 May 1966.

After graduating in Economics and Business from Bocconi University and specialising in Business Administration at the University of San Diego (California), he gained significant experience in the world of finance, first as an analyst in London for three years and then in the Recordati Group for seven years, with responsibility for Cash Flows; in the next seven years he served as a Director of Finance, Administration and Control for Europe for Eurand, a Nasdaq-listed company in May 2007. He is a Chartered Accountant and Auditor. Since November 2007 he has been Chief Financial Officer of the TXT Group.

#### Stefania Saviolo

Born in Milan on 14 March 1965.

She graduated in 1989 in Business Economics from Milan's Bocconi University, where in 1993 she earned her PhD in International Business completely in 1992-1993 at the Stern School of Business - New York University.

She qualified as a Chartered Accountant in 1994 and is registered on the Milan Register of Accountants. Since 1993, she has been a Lecturer in Management and Technology at Bocconi University and the SDA Bocconi School of Management, where she teaches undergraduate, graduate and executive courses. She has been an independent director since 2014 of the Natuzzi Group (NYSE-listed) and since 2017 of the Stefanel Group, where she is also the Chairman of the Appointments and Remuneration Committee. For over 20 years she has provided management consultancy to fashion, design and luxury companies in the areas of brand management, international growth and organisational development.

#### Fabienne Dejean Schwalbe

Born in Dakar (Senegal) on 5 May 1964.

Ms. Schwalbe graduated in 1985 with a Master's Degree from HEC Paris, with subsequent specialisations at the IMD Business School in Lausanne (2003) and at the Harvard Business School (2012). She gained key experience in the Media & Digital sectors in the United States, with growing responsibilities in the Bertelsmann Group in Paris. In Italy, she has held the position of CEO in the Bertelsmann Gruner+Jahr/Mondadori joint venture and provides consulting on digital transformation in France and Italy. She has completed projects for leading companies in the Media as well as Fashion sectors and has collaborated with Boston Consulting Group. She is currently advisor to the Chief Executive Officer of ASM Group, company specialised in customer care for Luxury brands, present in Europe, the USA and Asia.

#### Valentina Cogliati (in office as from 19 April 2018)

Born in Merate (LC) on 4 May 1981.

She graduated in 2005 in international law from Università Cattolica di Milano with first class honours. She gained diversified professional experience in the Elemaster group, established Joint Ventures and Companies in the USA, China and India and in particular has been involved in M&A, contracting, disputes and governance. She has participated in training courses of the Borsa Italian Elite project. She speaks French, German and excellent English.

Independent directors hold office in companies that are not part of the TXT Group.

## **Diversity policies and criteria**

The Company has applied diversity criteria, also with regard to gender, in the composition of the Board of Directors, in observance of the priority objective of ensuring adequate expertise and professionalism of its members (Standard 2.P.4.). In particular, the least represented gender, female, has three directors, equal to 43% of the total and therefore greater than a third of the Board of Directors (Criterion 2.C.3.).

The objectives, method of implementation and results of the application of the diversity criteria recommended by Article 2 are the following (Criterion 1.C.1., letter i), (4)).

In December 2018 Board of Directors, upon the proposal of the risks and internal control committee, in implementation of the matters envisaged by the Consolidated Finance Law, approved a diversity policy, which describes the optimum characteristics of the composition of said board so that it may exercise its duties in the most effective way, adopting decisions which may effectively avail themselves of the contribution of a plurality of qualified points of view, capable of examining the aspects in question from different perspectives.

When drawing up this diversity policy Board of Directors was inspired by the awareness of the fact that diversity and inclusion are two fundamental elements of the business culture of an international Group such as TXT, which operates in many countries. In particular, the valorisation of the diversities as a fundamental element of sustainability over the mid/long-term of the business activities represents a reference paradigm both for the employees and for the members of the management and control bodies of TXT.

With reference to the types of diversity and the related objectives, the policy in question (available on the Company's website) envisages that:

- it is important to continue to ensure that at least a third of the Board of Directors is made up of Directors of the least represented gender, both at the time of appointment and during the mandate;
- the international projection of the TXT Group's activities should be taken into consideration, ensuring the presence of Directors who have gained suitable experience in the international sphere;
- in order to pursue a balance between the needs for continuity and renewal in the management, it would be necessary to ensure a balanced combination of different lengths of service in office - in addition to age brackets - within the Board of Directors;
- the non-executive Directors should be represented by figures with an entrepreneurial, managerial, professional, academic or institutional profile such as to achieve a series of skills and experience which are diverse and complementary. Furthermore, in consideration of the diversity of the roles carried out by the chairman and the CEO, the policy describes the expertise, the experience and the softs skills deemed most appropriate for the effective performance of the respective duties.

In consideration of the TXT ownership structures, the Board of Directors has so far decided to refrain from presenting its list of candidates at the time of the various renewals, since difficulties of the Shareholders in drawing up suitable candidatures has not been noted. Therefore, this Policy first and foremost intends to guide the candidatures formulated by the Shareholders at the time of renewal of the entire Board of Directors, ensuring on this occasion a suitable consideration of the



benefits which may derive from a harmonious composition of said Board, aligned with the various diversity criteria indicated above.

The Board of Directors also takes into account the indications of this Policy if it is called to appoint or propose candidates to the office of Director, taking into consideration the indications possibly received from the Shareholders.

The Board of Directors in office was appointed before the adoption of the diversity Policy, but the current composition fully satisfies the objectives established by said policy for the various types of diversity.

The Company recognises the importance of its human capital without distinctions and is heedful to respect equality among the employees. The benefits which the employees enjoy are assigned without distinction in terms of gender. The results of the diversity policies within the entire organisation are described in the Consolidated non-financial statement in the section "Policies applied and results achieved - Diversity and inclusion".

At 31st December 2018 the Board had the following diversity elements:

- Gender diversity: 57% men, 43% women
- Age diversity: <50 years 14%; 50-60 years 57%; 60-80 years 29%;
- Length of service in office diversity: 1-3 financial years 29%; 4-6 financial years 29%; more than 6 financial years 43%.

### **Maximum number of positions held in other companies**

The Board has not set any specific criteria regarding the maximum number of management and control positions that can be held with other companies (Criterion 1.C.3.), also given the composition of the Board, whose members regularly and effectively participate in carrying out the role of director.

### **Induction Programme**

Subsequent to their appointment and during their term of office, the Chairman has made it possible for directors to participate in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, the principles of correct management of risks, as well as the relevant regulatory framework of reference (Criterion 2.C.2.). Application of this principle is fulfilled for the independent directors through discussions and meetings with management and participation in operational events and initiatives. In particular, with regard to the new directors appointed during 2018, Enrico Magni was appointed CEO and interacts daily with the operating units while Valentina Cogliati has participated together with the other independent directors in a specific Induction encounter on 31 May 2018 on the aspects of business, markets, customers, opportunities and risks. The other directors are executives and managers of the company.

The Board of Directors shall act and decide autonomously, having full knowledge of the facts, and pursue the objective of creating value for the shareholders – an essential requirement for a profitable

relationship with the financial market. All the directors devote the necessary time to the diligent performance of their duties, being aware of the responsibilities pertaining to their office.

The Company did not set up an Executive Committee or a Nomination Committee. The members of the Remuneration and Risks and Control Committee are all independent directors.

No other change has occurred since the end of the 2018 reporting period to date.

#### 4.3. Role of the Board of Directors (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

The Board of Directors has a fundamental role in the company's management, charged with strategic functions and organisational coordination. The board is also responsible for verifying that a suitable audit system needed to monitor the performance of the Company is in place.

The Board (Criterion 1.C.1. letter a):

- examines and approves the Company's strategic, industrial, and financial plans, periodically monitoring their implementation;
- examines and approves the strategic, industrial, and financial plans of the Group headed by the Company, periodically monitoring their implementation;
- determines the Company's corporate governance system;
- defines the structure of the Group headed by the Company.

The tasks carried out by the Board of Directors on an exclusive basis are determined both by the Company's By-Laws and by corporate common practice. In particular, the Board is vested with the broadest powers regarding the Company's ordinary and extraordinary management and specifically, it is entitled to take all the measures it deems appropriate for achieving the Company's goals, except for those reserved exclusively for the Shareholders' Meeting pursuant to legal provisions. Notably, the Board of Directors:

1. gives and revokes the CEO/CEOs' mandates, defining his/her operational environment and powers;
2. undertakes commitments which are not included in the ordinary management of the Company and previously approved budgets;
3. determines the remuneration of the directors for offices, after examining the Remuneration Committee's proposal and after consulting with the Board of Auditors;
4. examines and approves transactions having a significant impact on the Company's profitability, assets and liabilities or financial position and resolves upon the acquisition and disposals of stakes, companies or business branches; it assesses in advance real estate transactions and disposal of strategic assets;
5. defines the guidelines and identification parameters of the most significant transactions, also involving related parties;
6. oversees general operating performance on the basis of information received from the General Manager and the Risks and Internal Controls Committee;
7. establishes the Company's and the Group's structure and checks their adequacy;

8. reports to the shareholders at the Shareholders' Meeting.

During the 2018 financial year, the Board of Directors held 13 meetings with an average duration of 2 hours and 30 minutes. Directors had an average attendance of 93%, while that of the Statutory Auditors was 79%.

6 meetings have been scheduled for 2019, and the first one was held on 30 January 2019. As envisaged by the regulatory provisions in effect, the Company has disclosed, in its press release issued on 5 December 2018, the following dates of the Board of Directors' meetings scheduled for 2019, for examination of the financial data:

- 7 March 2019: draft financial statements for the year ending 31/12/2018
- 18 April 2019: Meeting for the 2018 financial statements (single call)
- 10 May 2019: interim report on operations as at 31/3/2019
- 1 August 2019: half-yearly report as at 30/6/2019
- 7 November 2019: interim report on operations as at 30/9/2019

The Chairman organises all the Board activities, ensuring that directors are promptly provided with all documentation and information necessary to make any decision. In order to ensure that all the directors make informed decisions and that a proper and complete assessment of the agenda items is performed, all documentation and information – and in particular draft interim reports – shall be made available to the Board members an average of 4.75 days before the meeting, a better timeframe than the 3 days in advance indicated as adequate by the Risk and Control Committee (Criterion 1.C.5). During 2018, 42% of the items on the agenda of the Board meetings did not require the submission of any preliminary documentation, considering the nature of the topics discussed (43% in 2017). The Board meetings may also be held via audio and video conferencing. In certain circumstances, depending on the type of decisions to be made, on confidentiality requirements or on critical timing, some restrictions to prior disclosure could apply.

The Chairman of the Board of Directors ensures that sufficient time is dedicated to the topics in the agenda, in order to allow a constructive debate, encouraging contributions by the Directors during the course of the meetings.

The Chairman of the Board of Directors, with the assistance of the Board secretary, notifies the directors and Statutory Auditors in advance with regard to the issues that will be discussed during the board meetings and, if necessary, in relation to the topics on the agenda, ensures that adequate information is provided on the issues to be examined sufficiently ahead of time. The Board secretary, upon instruction by the Chairman, sends the relative documentation to the directors and statutory auditors via e-mail, at different times depending on the material to be discussed, except for cases of urgency or when there are special confidentiality requirements; in this case, detailed examination of the topics is in any case ensured. The CEO informs the department managers in advance with regard to the necessity for or mere possibility of participating in the Board meetings during examination of the topics pertinent to them, so that they may contribute to the discussion.

Company managers, in charge of relevant functions, the Company's auditors and legal, financial or tax consultants may join any Board meeting with the aim of providing in-depth analysis of the issues on the agenda (Criterion 1.C.6). During 2018, Paolo Colombo, Executive Vice President of the

Fintech Division, took part in a Board meeting. Regular updates were provided by the Company's consultants and lawyers.

The Board assessed the suitability of the organisational, managing and accounting structure of the Company and its strategically significant subsidiaries provided by the CEO Marco Guida, with special reference to the internal control and risk management system and the management of conflicts of interest (Criterion 1.C.1., letters b and c).

After examining the proposals of the relevant committee and in accordance with the Board of Statutory Auditors, the Board decided the remuneration of the Chairman and of the other directors (Criterion 1.C.1., letter d).

The Board assessed the Company's general management, taking into account, in particular, the disclosure provided by the delegated bodies, and periodically comparing the actual results with respective targets (Criterion 1.C.1., letter e).

The Board examined and approved in advance the transactions having a significant impact on the strategies, profitability, assets and liabilities or financial position of the Company and its subsidiaries (Criterion 1.C.1., letter f).

The Board is reserved the right to examine and approve in advance any transactions of the Company and its subsidiaries in which one or more directors have an interest both in favour of themselves or on behalf of third parties (Criterion 1.C.1., letter f).

On 8 March 2018, the Board assessed the size, composition and functioning of the board itself and of its committees (Criterion 1.C.1., letter g).

Each director received a questionnaire asking for their opinion on the size, composition, functioning, meetings, efficacy and responsibilities of the Board and its committees, with the option of making suggestions or intervention proposals. The completed questionnaires were collected by the Internal Audit unit and the secretary of the Board of Directors compiled a summary of the opinions and recommendations made and submitted it to the Board of Directors.

Acknowledging the overall results of the relative questionnaires, the Board expressed an evaluation of essential adequacy with regard to the size, composition and functioning of the Board of Directors and its committees.

The Shareholders' Meeting did not authorise, on a general and preventive basis, exemptions to the non-competition agreement provided for by Article 2390 of the Italian Civil Code (Criterion 1.C.4.).

In order to ensure the correct management of company information, the Board of Directors approved on 8 March 2017 a new "Regulation for the management of Privileged Information and Establishment of the register of persons with access to it" and a new "Internal Dealing Procedure", in accordance with the new Market Abuse Regulation – MAR. The documents were published on the Company's website (Criterion 1.C.1. letter j).

## 4.4. Delegated bodies

### Managing Directors

The Board of Directors on 10 May 2018 appointed Enrico Magni as Chief Executive Officer and confirmed Marco Guida as Chief Executive Officer, a position which he has held since 1 January 2009.

During this meeting the CEOs Enrico Magni and Marco Edoardo Guida were granted the power to carry out in the name and on behalf of the Company, and therefore with representation of the same, all the acts inherent and related to the management of the Company, as listed below, with the express exclusion:

- a. of those tacitly reserved by law or by the By-laws, for the general shareholders' meeting and the Board of Directors;
- b. purchase and sale of real estate property assets;
- c. purchase and sale of shareholdings, businesses and business segments.

### CONTRACTS

Sign in the name and on behalf of the Company, signing alone, contracts and other documents indicated below, provided that they do not involve for the Company a financial commitment greater than the amounts and in observance with the exercise formalities indicated as and when appropriate.

#### Insurance agreements

Enter into and sign in the name and on behalf of the Company any insurance policy, fixing the limits of liability and the duration, agreeing the premiums and the coverage conditions for all the industrial and commercial activities and any other sector of the Company, both in the area of third party liability and that of non-life, accident and life policies, within the limits of an annual financial commitment for the Company of Euro 500,000.00 (five hundred thousand/00), for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; amend the agreements, withdraw from the same, agree in the event of insured event the compensation owed by the insurer, issuing receipt for the amount collected.

#### General agreements

Finalise, amend, cede and terminate, also with the public administration bodies and authorities, in the name and on behalf of the Company, fixing the prices and the conditions, with all the clauses deemed necessary, including the arbitration clause, and providing the necessary guarantees and deposits, agreements and contracts of any kind, including those concerning vehicles, which appear useful or necessary for the pursuit of the corporate purpose, carrying out all the necessary procedures care of the related Public Register and any competent office, including, by way of example but not limited to, the following: a. contracts for the purchase and sale of products, systems, plant, apparatus, goods, machinery, software, IT assets and other movable assets (including those recorded in public registers), with regard to the matters inherent to the purchase, within the limits of an annual financial commitment for the Company of Euro 500,000.00 (five hundred thousand/00), for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; b. supply and provision contracts for any kind of utility; c. rental, lease, including financial or operative, licence, sub-letting or loan-for-free-use contracts, concerning

movable assets, registered or otherwise, within the limits of an annual financial commitment for the Company of Euro 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; d. contracts for the concession under tender to third parties, within the limits of an annual financial commitment for the Company of Euro 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; e. contracts for the supply of goods and services, within the limits of an annual financial commitment for the Company of Euro 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; f. agency, mediation, canvassing, commission-based, distribution and brokerage agreements, with or without representation, within the limits of an annual financial commitment for the Company of Euro 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative; g. contracts for the establishment of joint ventures or temporary groupings of companies, including therein the conferral or acceptance of the collective representation mandate, as well as for the establishment, between united companies, of a business, also consortium-based, for the joint, total or partial execution of tendered work:

#### Tenders

Sign offers, tenders with the consequent deposits, contracts, outline agreements, sales orders and accept orders for work entrusted to the Company up to a maximum amount of Euro 5,000,000.00 (five million/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

#### Intellectual Property

Register trademarks and file new applications, acquire and transfer new trademarks and patents, for industrial inventions. Enforce the rights of the Company in the field of industrial and intellectual property, take action against copiers and forgers using any legal means.

#### GUARANTEES

Issue endorsements, sureties and guarantees in general on behalf of the company, for a value per individual transaction not exceeding Euro 500,000.00 (five hundred thousand/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

Enforce secured and unsecured guarantees in favour of the Company and to the charge of third parties; proceed with the cancellation/reduction of the same further to enforcement.

#### BANKING AND FINANCIAL AREA

##### Collection of sums

Take steps - on behalf, in the name and in the interests of the Company - to collect, free up and withdraw all the sums and all the valuables which are for any reason or cause due to the same by whomever, including the sums owed for any reasons by the government authorities, regional, provincial and municipal authorities, the bank for deposits and loans, the inland revenue agencies, the credit consortiums or institutes - including the issuing bodies - and therefore to see to the levy of mandates which have already been issued or will be issued in the future, without any time limits, in favour of the Company, for any principal or interest amount which is owed to the same by the aforementioned authorities, by offices and institutes indicated above, both by way of payment of the

deposits made by said Company and for any other reason or cause; issue in the name of the Company the corresponding declarations of receipt and discharge and in general all those declarations which may be requested at the time of the accomplishment of the individual procedures including those for exonerating the afore-mentioned offices, authorities and institutes from any liability in this connection.

#### Deposits

Establish, deposit, release and withdraw securities representing collateral and guarantee deposits (provided that they do not guarantee debts or other third party obligations, with the exclusion of the Group companies), care of the State and State-owned Public Administration Authorities, care of the Area Public Bodies, the Ministries, the Public Debt offices, the Bank for deposits and loans, the Inland Revenue Agency, the Territorial Agency, the Customs Agency, the Customs Offices, the Municipal, Provincial and Regional Authorities, the military administrations, and any other public or private body or office and carry out any type of transaction relating to said deposits and any procedure to be performed both with regard to the deposits pertaining to the Bank for deposits and loans and with regard to the provisional certificates administered by the Treasury Directorate General, all for amounts less than Euro 500,000.00 (five hundred thousand/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

#### Deposits and current accounts

Open and close current accounts. Finalise, enter into and execute the agreements and sign all the documentation opportune and necessary for the activation and the use of E-Banking products, with the faculty to delegate to third parties for operating via the same.

#### Request credit facilities, credit lines and sureties.

Request the banks, the ordinary lending institutes and insurance companies for the release of sureties and guarantees, for amounts no greater than Euro 500,000.00 (five hundred thousand/00) or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative, signing the related documentation and availing of the guarantees and sureties obtained.

#### Endorsement for collection

Endorse and receipt, deposit securities and valuables, bank cheques, promissory notes, bills of exchange, with crediting into the current accounts of the Company and signing of the related payment slips.

#### Cheques

Issue bank cheques and request the issue of banker's draft on the current accounts held in the name of the Company within the credit limits granted or signing jointly with the other Chief Executive Officer or Legal Representative for greater amounts.

#### Payments

Arrange and receive credit transfers, make payments, collections of drafts with charging to the account, signing the related documentation, and obtain the related receipts, and in general transact on the bank current accounts of the Company in the name and on behalf of said Company, for amounts no greater than Euro 500,000.00 (five hundred thousand/00) for each individual act, or, for a higher amount, signing jointly with the other Chief Executive Officer or Legal Representative.

Arrange the payment of the salaries of the employees.

#### Payment of taxes

Execute the periodical payments of value added taxes, mandatory social security and welfare contributions, the withholdings made, the taxes and levies owed by the Company carrying out any ordinary bank transaction, withdrawing from the current accounts of any kind of the Company, with the faculty to delegate third parties.

#### Discounting of bills

Carry out discounting transactions on bills of exchange signed by the Company or third parties, for transactions for advances, undertaking commitments and fulfilling the necessary formalities.

#### Charging of taxes and contributions to accounts

Sign letters charging to current accounts wages, salaries, contributions and any tax or levy payable by the company (merely by way of example but not limited to: IRES (company earnings' tax), IRAP (regional business tax), VAT, IRPEF (personal income tax) etc.), with the faculty to delegate third parties.

#### Factoring of receivables

Factor and exchange the receivables of the Company, signing any document necessary for finalising the assignment of the same, for a value per individual transaction not exceeding Euro 500,000.00 (five hundred thousand/00) or signing jointly with the other Chief Executive Officer or Legal Representative for higher amounts.

#### Intercompany transactions

Sign interest-bearing or non-interest-bearing loan agreements with subsidiaries or associated companies.

### DISPUTES

#### Representation before the legal authorities

Represent the company before any legal, administrative, tax, ordinary or special authority, at any level, stage or venue and therefore also vis-à-vis the Council of State, the Supreme Court of Cassation and before the Tax Commissions, with powers to sign applications, petitions and agreements for any matter, submit and refer oaths; submit and reply to interrogations or questioning also with regard to civil forgery, intervene in bankruptcy proceedings (with the faculty to present bankruptcy applications), compulsory administrative liquidation, arrangement with creditors, receivership and any other insolvency or pre-insolvency procedure and further the related declaration, collect sums on account or as balance and issue receipt; propose petitions and challenges and vote in said procedures; further summary, precautionary and executive proceedings before any authority, furthering attachments and distrains by hand of debtors or third parties, with the faculty to take part in judicial auctions, make declarations as third party under attachment or confiscation, fulfilling all that is laid down by the current provisions of the law, establishing all the formalities relating therefore also to the release of special or general mandates or power of attorney for the disputes, including therein the special attorneys as per Article 420 of the Italian Code of Civil Procedure, for taking and opposing legal action, to legal council in general, defence counsel and domiciliary representatives, business accountants and experts, electing the appropriate domiciles; see to the execution of the sentences.



#### Representation in labour disputes

Represent the Company in disputes as plaintiff and defendant, at any level and venue of proceedings, before the legal authorities competent with regard to labour matters as well as before the Arbitration Commissions established care of the Provincial Headquarters and care of the Trade Union Organisations and trade associations in the settlement proceedings pursuant to Article 410 of the Italian Code of Civil Procedure with the widest power associated with this power including therein that of appointing legal counsel, make questioning formal and come to terms and reconcile disputes.

#### LABOUR AREA

##### Employ and dismiss employees.

Employ and dismiss employees and fix the related remuneration and contractual conditions, including executives.

##### Duties, promotions and sanctions

Define the specific responsibilities of the employees, divide up the duties, define the duty schedules, programme holiday entitlement and leave, challenge violations, decide with regard to any disciplinary sanctions including therein dismissal; arrange promotions and transfers; sign any document inherent to the management of the company's human resources such as, by way of example, instruction letters, letters of censure or rebuke, letters of contestation.

##### Social security and welfare fulfilments

Issue extracts from the payroll records and certificates regarding the staff, both for social security or welfare bodies and for the other public or private bodies, see to the observance of the fulfilments which the company is obliged to meet such as substitute tax, with the faculty - among other things - to sign declarations, certificates and any other document, for the purpose of these fulfilments.

#### CORRESPONDENCE AND TRANSACTIONS

##### Correspondence and invoicing

Sign and keep all the correspondence of the Company and the invoicing; sign requests for information and documents, requests for clarification and solicitation; sign letters of an informative, interlocutory nature, solicitation and forwarding letters, as well as any other document which requires the signature of the Company and which regards business included within the limits of the powers delegated therein.

#### TAX AND ADMINISTRATIVE REPRESENTATION AND THAT IN DEALINGS WITH THE SOCIAL SECURITY BODIES

##### Tax representation

Represent the Company in dealings with any Tax Authority, national and local, also abroad, request and agree reimbursements of taxes and levies issuing the related receipt, carry out any act pertinent to the subject matter deemed appropriate for protecting the interests of the Company.

##### Sign tax declarations

Draw up, sign and present all the declarations necessary and/or appropriate for the tax purposes envisaged by the law (purely by way of example but not limited to IRES (company earnings' tax),

IRAP (regional business tax), VAT, declarations of the withholding agents and any other declaration required by law or by the tax offices) seeing to the regularity and promptness, both in the drafting and the presentation, fill in forms and questionnaires, present communications, declarations, accept and reject assessments, present communications, declarations, briefs and documents and documents before any office or Tax Commission, including the Central Tax Commission, collect reimbursements and interest, issuing receipt and, in general, carry out all the procedures relating to any kind of tax, levy, direct and indirect, local taxes and levies or otherwise, duties and contributions.

#### Contract registration

Register contracts, corporate deeds and documents in general.

#### Administrative procedures

Draw up, sign and present the necessary reports and communications to the Companies' Register, the Chamber of Commerce, the Registry Office, the Courts, the VAT office, the Bank of Italy, Consob, the Istat authority, the Land Registry Offices, the Anti-trust Authority, the Ministries and any other public and/or private Entity in relation to any procedure of a bureaucratic and/private nature inherent to the Company.

#### Representation care of public and private bodies

Represent the Company in all the dealings with the public and private bodies, including the economic and territorial public bodies, consortiums and associations, Chambers of Commerce, Customs Offices, state-owned and social security bodies, present applications, petitions and appeals and in any event carry out in the name and on behalf of the Company any activity necessary or appropriate for the protection of the corporate interests in the dealings with the public bodies; accomplish any formality and duty required by legislation in this sphere.

Represent the Company in any dealings with the Companies' Registers, the Stock Exchanges, the Supervisory Authority and Bodies, Ministries and other public and private offices and Bodies, regarding the fulfilments which are the responsibility of the Company due to laws and regulations, in Italy and abroad. Represent the Company in any dealings with Social security, welfare, insurance, accident prevention institutions and the Labour Offices and Employment Bureaus.

Represent the Company before the Public Safety Authorities and the Fire Service drawing up and signing the appropriate reports, declarations and complaints.

#### Intercompany representation

Represent the Company during both ordinary and extraordinary shareholders' meetings of the subsidiary and associated companies.

### APPOINTMENT AND REMOVAL OF LEGAL REPRESENTATIVES - PRIVACY

Appoint and remove *ad hoc* legal representative and/or general mandate holders for certain acts or categories of acts within the limits of the powers granted.

#### Privacy

With reference to the processing of personal data, pursuant to Italian Legislative Decree No. 196 dated 30 June 2003 and the EU Regulation 2016/679: (i) see to all the necessary fulfilments for the adaptation and observance of the current provisions concerning personal data, with autonomy of expenditure in this connection; (ii) see to the personal data processing formalities, including therein the security profile; (iii) appoint, if deemed appropriate, one or more "data supervisors" for the

processing of the personal data from among parties who, as a result of experience, capability and reliability, provide suitable guarantees in full observance of the current provisions regarding processing and security, pursuant to and for the purposes of the legislation in force at that time.

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The Board meeting held on 25 October 2018 appointed Enrico Magni as Chief Executive Officer of the Group with the tasks of supervising the two Aerospace Divisions, Aviation & Automotive and Fintech, entrusted respectively to Marco Guida and Enrico Magni *ad interim*.

In his capacity as Chief Executive Officer, Enrico Magni is responsible for the Company's management.

The case of interlocking directorate does not apply since TXT's Chief Executive Officer does not serve as a director in other issuers (not belonging to the same Group) where a TXT director serves as Chief Executive Officer (Criterion 2.C.6.).

### **Chairman of the Board of Directors**

On 10 May 2018 the Board of Directors confirmed to the Chairman special tasks with regard to the identification, coordination and review of development strategies; identification and implementation of business collaboration proposals with other operators, including through acquisitions, partnerships or joint ventures; promotion of activities to major customers and investors, coordinating the relevant internal activities; monitoring of the international situation, with particular regard to markets in which the company has a presence through its subsidiaries, in order to update the company's and the group's strategy on the basis of continual developments in market conditions (Criterion 2.C.1.).

On 10 May 2018, the Board of Directors revoked all the powers of ordinary and extraordinary business from the Chairman granted on 21 April 2017 and which concerned:

1. to perform, in the name and on behalf of the Company, all the ordinary and extraordinary operations, except for purchase and sale of real estate property; in particular, for example, but not limited to:
2. to release grants, securities and guarantees in general, in the name of the Company;
3. to sign, in the name and on behalf of the Company, sale and purchase agreements and lease agreements, including financial leases concerning movables, even those registered in public registers, tenders, free loans, lease agreements concerning real estate property; acting as a principal or agent in agency or sub-agency agreements and appoint agents;
4. to participate in bids, tenders, public and private auctions to the end of providing works and services of all types;
5. to open and close bank accounts, apply for loans and credit lines with ordinary credit institutions of any amount and nature, on a medium-to-long term basis, and sign all the documents requested by the aforementioned credit institutions for completing said applications; to accept the related contract clauses;
6. collect payments and values due to the Company for any reason by any entity as well as by

- Administrations belonging to the State, Regions, Provinces and Municipalities; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction concerning the use of loans provided by banks and in particular arrange for any commercial bills to be discounted and collected and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, Cassa Depositi e Prestiti, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising investment and divestment;
7. to represent the Company before any ordinary, special, national, regional and administrative Authority; sign and submit petitions, appeals, minutes concerning any issue, file administrative and court cases; take part in creditors' agreements and bankruptcy procedures; appoint lawyers and enter into any retainer agreements, in relation to any court proceedings, including with enforcing powers, in any stage and instance; settle disputes through arbitration, with awards enforceable as a court ruling (arbitrato rituale) or with decisions counting as a contract (arbitrato irrituale), and acting as amiable compositeur; appoint arbitrators; sign tax declarations and certifications;
  8. to represent the Company in any import or export transaction, customs formality, before the Bank of Italy or the Ministry of Foreign Trade;
  9. to appoint, employ, promote, suspend and dismiss staff of any level;
  10. to sign contracts aimed at forming Associations, temporary business associations, and consortia for participating in tenders promoted by both private and public bodies; to subscribe or purchase stocks or shares of companies of any nature;
  11. to appoint attorneys-in-fact and representatives to whom to transfer, in whole or in part, said functions;
  12. to apply for patents for inventions or trademarks; to sign the relevant licence contracts, waiving or withdrawing patent applications;
  13. to sign interest-bearing or non-interest-bearing financing contracts with subsidiaries or associated companies; to represent the Company during both ordinary and extraordinary Shareholders' Meetings;
  14. to sign on behalf of the Company all deeds concerning the above-mentioned issues, and all the ordinary and extraordinary deeds, for which a non-exhaustive list has been compiled for example purposes, by adding the corporate name before the signature.

The Chairman is not the main party responsible for the management of the Issuer and is not the controlling Shareholder.

**Executive Committee (Article 123-bis, paragraph 2 letter d), of the Consolidated Law on Finance)**

No Executive Committee has been created.

## **Disclosure to the Board of Directors**

The delegated bodies reported to the Board on the activity performed with regard to the powers assigned to them on a quarterly basis.

The CEOs report to the Board of Directors and Board of Statutory Auditors on activities carried out, on the general performance of operations, on the expected outlook and on transactions with significant income, equity and financial value carried out by the Company or by its subsidiaries. The CEOs have also introduced the practice of providing a report to the Board of Directors and Board of Statutory Auditors, upon convening of each meeting of the Board of Directors and regardless of the time that has passed since the previous one, on the activities and key transactions carried out by the Company and by its subsidiaries that do not require prior approval by the Board.

### **4.5. Other executive directors**

Within the Board Mr Paolo Matarazzo (Chief Financial Officer) is to be considered an executive director by virtue of the managing responsibilities held with the Issuer and its strategically significant subsidiaries (Criterion 2.C.1.).

### **4.6. Independent directors**

The Board of Directors has three independent members (without operating powers and/or executive functions within the Company) such as to ensure, regarding both number and standing, that their opinion can be significant to the Board's decisions.

The independent members shall provide their specific technical and strategic expertise during board discussions in order to analyse the subjects under a different point of view and pass shared, responsible resolutions in line with corporate interests.

To this end, even if in urgent circumstances powers can also be assigned to non-executive directors, they shall not be considered as executive directors under this Report.

As of 31 December 2018, the three non-executive directors were qualified as independent: Stefania Saviolo, Fabienne Dejean Schwalbe and Valentina Cogliati.

On 16 March 2018, the independent director Teresa Cristiana Naddeo handed in her resignation with effective as from the shareholders' meeting held on 19 April 2018, justifying the decision in consideration of the disposal of the investment by the shareholder E-business Consulting S.A., on whose list she was elected, and since the purchaser had manifested the desire for a change on governance of the company. The shareholders' meeting held on 19 April 2018 appointed Valentina Cogliati as board director. The Board meeting held on the same date checked the independence requirements of Valentina Cogliati both for the purposes of Article 148.3 of the Consolidated Law on Finance and the Corporate Governance Code - Criterion 3.C.1. and 3.C.2.

In compliance with the provisions of Article 3.P.1. of the Code, the following directors are independent directors:

- i) do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained, business relationships with the Company, its subsidiaries, the executive directors and/or the controlling shareholder of such a relevance to influence their autonomous judgment;
- ii) do not own, directly or indirectly or on behalf of third parties, a quantity of shares enabling them to control the Company or exercise a considerable influence over it nor do they participate in shareholders' agreements to control the Company;
- iii) are not family members of executive directors of the Company or of persons mentioned in points i) and ii) above.

The Board of Directors verified compliance with the independence requirements provided for by the Code with respect to each independent director (Criterion 3.C.4.). In performing the above-mentioned assessments the Board applied all the criteria provided for by the Code (Criteria 3.C.1. and 3.C.2.).

On 8 March 2016, the Board adopted a Procedure to Assess the Independence Requirements, with a number of additional requirements with respect to those envisaged by the code. The Board states that a director is not generally considered independent if they have or had during the prior year business, financial or professional dealings with the Company, with one of its subsidiaries or with any of the relative significant parties, or with a party that controls the Issuer, or with the relative significant parties, if the total value of said dealings exceeds:

- i) 10% of the turnover of the legal person, organisation or professional firm in which the director has control or is a significant member or partner, or
- ii) 10% of the annual income of the director as natural person or of the annual turnover generated directly by the director as part of the activities carried out for the legal person, organisation or professional firm in which the director has control or is a significant member or partner, or
- iii) 100% of the remuneration received as member of the Board of Directors and Committees. (Criterion 3.C.4.).

On 18 April 2018 the Board of Directors assessed the independence of non-executive directors by considering, among other things, the principle of substance over form (Criteria 3.C.1. and 3.C.2.), and making use not only of information provided by those concerned, but also of all information available to the Company; it therefore confirmed Ms Stefania Saviolo, Ms Fabienne Dejean Schwalbe and Ms Valentina Cogliati as independent directors.

The Board of Statutory Auditors verified the correct application of the criteria and the verification procedures adopted by the Board to assess its members' independence (Criterion 3.C.5.).

The independent directors are committed to maintaining their independence status over their term of office and, if necessary, to resign (Comment to Article 5 of the Code).

The independent directors Stefania Saviolo (Lead Independent Director and Chairwoman of the Remuneration Committee) and Fabienne Schwalbe (Chairwoman of the Risks and Internal Controls Committee and the Transactions with related parties Committee) have been able to enter into discussion in the absence of the other directors on the following occasions (Criterion 3.C.6.):

- 11 June 2018 on the subject of the price for the acquisition of Cheleo and preparation of the Transactions with related parties Committee;
- 20 June 2018 on the subject of the Due Diligence and the fairness opinion for the acquisition of Cheleo;

- 20 July 2018 on the subject of the divestment of the TXT Sense Division;
- 13 September 2018 on the subject of the procedures with the Related party Sense Immaterial Reality S.r.l. and request for independent opinion
- 3 October 2018 on the request for presentation of the new organisation of TXT and roles;
- 19 December 2018 on the 2019 remuneration proposals for special appointments to the directors.

The independent directors have regular occasions to meet during meetings of the Remuneration Committee, the Risks and Internal Controls Committee and the Transactions with related parties Committee, of which they are exclusive members.

#### **4.7. Lead Independent Director**

The role of Chairman of the Board of Directors is separate from the role of Chief Executive Officer, and the Chairman is not the individual who controls the company; nevertheless, a Lead Independent Director has been appointed. On 19 April 2018, the Board of Directors appointed Ms Stefania Saviolo as Lead Independent Director (Criterion 2.C.4.), in replacement of Teresa Cristiana Naddeo, outgoing with effect as of the same date.

The Lead Independent Director (Criterion 2.C.5.):

- a) represents a point of reference and coordination for the requests and contributions of non-executive directors, particularly independent ones;
- b) collaborates with the Chairman of the Board of Directors in order to ensure that directors receive complete and prompt information.

The powers of the Lead Independent Director include the power to convene, autonomously or upon request by the other directors, specific reunions of only independent directors in order to discuss issues deemed of interest for functioning of the Board of Directors or management of the company.

## **5. PROCESSING COMPANY INFORMATION**

The Board of Directors approved on 8 March 2017 a new “Regulation for the management of Privileged Information and Establishment of the register of persons with access to it”, in accordance with the new Market Abuse Regulation.

The Regulation is available on the Company’s website at the following address:

<https://www.txtgroup.com/it/governance/altre-informazioni/>

The Regulation is divided into various sections, including the definition of privileged information, confidentiality obligations, prohibited and legitimate conduct, information management processes, access by third parties, the publication process, delays in communication, external relations, rumours, forecast data, subsidiaries, the register of person with access to privileged information, limitations on securities transactions in the 30 days preceding the announcement of profit/loss and before extraordinary transactions.

According to the company's best practices on confidential information, press releases on resolutions regarding the approval of financial statements, half-yearly and quarterly reports, extraordinary decisions and transactions are approved by the Board, without prejudice to the power assigned to the Chairman and CEO in the event of urgent notices required by the relevant Authorities.

The disclosure of price sensitive information shall take place in compliance with guidelines issued by Consob and Borsa Italiana S.p.A. by means of dedicated communication tools (Network Information System), only accessible to corporate functions participating in the process.

Directors shall keep the documents and information acquired in the performance of their duties as confidential and comply with the procedure adopted for disclosure to third parties of such documents and information.

The Chairman of the Board of Directors shall oversee compliance with the provisions on company disclosure by arranging and coordinating all related intervention of internal structures.

The Board has adopted rules for the internal handling and disclosure to third parties of information concerning the Company, notably with regard to price sensitive information. These rules incorporate the definitions of price sensitive information and confidential information as inferred from the regulations, from clarifications provided by Consob and from market practice, defining the management of information included within said definitions and identifying the company managers who handle and coordinate flows of information until their disclosure to the Market, in accordance with the methods envisaged by the regulations in effect.

The Regulation also governs the functioning of the register of persons with access to privileged information (Articles 152-*bis et seq.* of the Consob Issuers' Regulation). The Register ensures traceability of access to individual market-sensitive information contexts, that are separated into recurrent or continuous relevant activities/processes (e.g. the accounting process or meetings of corporate bodies) and specific projects/events (e.g. extraordinary corporate transactions, acquisitions/assignments, relevant external facts).

The registration of the names in the register takes place by individual recurrent or on-going activity/process.

or by each individual project/event (including with the possibility of the same party being registered several times in different information contexts), indicating the initial moment of availability of the specific market-sensitive information and if applicable the moment from which such availability is revoked (entry to/exit from the relevant information context). Upon registration, the system automatically produces a notification message to the interested party, accompanied by an appropriate information note regarding obligations, prohibitions and responsibilities relating to access to market-sensitive information.

On 28 January 2013, the Company published on its website a press release stating that the Board of Directors had decided to take advantage of the option not to comply with the obligations to publish information documents in the case of significant merger, demerger, capital increase by non-monetary contribution, acquisition and assignment transactions.

Code of Conduct on Internal Dealing.



The Board of Directors approved on 8 March 2017 a new “Internal Dealing Procedure”, in accordance with regulatory changes (Criterion 1.C.1., letter j).

The Procedure is available on the Company’s website at the following address:

<https://www.txtgroup.com/it/governance/altre-informazioni/>

The Procedure is divided into various sections, including the definition of Significant Transactions, Closely Related Persons, Relevant Parties; Obligations regarding information and conduct on the part of relevant parties and closely related persons; further conduct obligations: blackout periods, sanctions; the party responsible for updating the Procedure; its entry into force; the list of examples of significant transactions; the templates for notifications and communications to the public; negotiations during the blackout period.

According to the Code of Conduct provisions, the Company shall notify the market of the transactions performed by each relevant person whose global amount is equal to or higher than € 5,000 per person, by the end of the year starting from the first transaction. Such notification shall be made within three trading days subsequent to the end of the transaction.

## **6. COMMITTEES WITHIN THE BOARD (Article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance)**

No committees different from the ones provided for by the Code, with consultative and advisory functions, have been constituted.

No committees performing the functions of two or more committees provided for by the Code have been constituted.

## **7. NOMINATION COMMITTEE**

The Board of Directors has not established, within the Board, any Nomination Committee, since that function is directly performed by the Board, owing to the Company's shareholding structure and Board's size. The Board therefore also took advantage of the discretion allowed by the Corporate Governance Code to comply with the substance of the Corporate Governance improvement targets, implementing them according to the principle of proportionality, i.e. in consideration of the characteristics, dimensions, internal organisational complexity, nature, scope and complexity of the activities carried out.

## **8. REMUNERATION COMMITTEE**

Information provided in this section is to be considered jointly with the relevant parts of the Remuneration Report, published in compliance with Article 123 of the Consolidated Law on Finance.

The Board of Directors has formed a Remuneration Committee from within its members through a resolution dated 8 June 2000. It currently has two members, both independent directors (Principle 6.P.3.).

**Composition and functions of the Remuneration Committee** (Article 123-*bis*, paragraph 2, letter d), of the Consolidated Law on Finance

The Remuneration Committee is composed of two independent directors: Stefania Saviolo and Fabienne Dejean Schwalbe (Criterion 4.C.1., letter a) (Principle 6.P.3.). Ms Stefania Saviolo is the Committee Chair. Minutes of the Remuneration Committee meetings have been duly taken (Criterion 4.C.1., letter d) and the Chairman of the Committee has informed and updated the Board on the activities carried out and decisions made during the next relevant meetings.

Further to the resignation of Teresa Cristiana Naddeo as Board Member with effect as from 18 April 2018, the number of members of the Committee fell from three to two.

During the year 2018, the Committee held four meetings (on 6 March, 9 May, 11 and 19 December) of an average duration of one hour. The members of the Board of Statutory Auditors are also required to take part in the Committee's meetings. The directors participated in all committee meetings held during their effective term of office. The Statutory Auditors had an average attendance of 92%. Each director's participation is shown in Table 2 attached to this Report. Three meetings have been scheduled for 2019. The first 2019 Remuneration Committee meeting was held on 30 February 2019.

Directors should not participate in meetings held to discuss and submit to the Board their own remuneration (Criterion 6.C.6.).

Other non-members have been invited to join the meetings of the Remuneration Committee (Criterion 4.C.1., letter f). In 2018, Mr Paolo Matarazzo, Chief Financial Officer, attended four committee meetings and was called upon to act as secretary and Mr Francesco Cusaro, Human Resources director, also attended a meeting.

The Board of Directors' Meeting held on 10 December 2010 resolved to approve the Remuneration Committee Regulations.

### **Functions of the Remuneration Committee**

The Committee's specific goal is to provide the Board with the most appropriate guidelines and means to set top managers' remuneration and verify that the parameters adopted by the Company for defining remuneration of employees, including managers, are correctly set and applied, also with a view to relevant market standards and the Company's growth targets.

The Remuneration Committee submits to the Board its proposals for definition of the general remuneration policy for executive directors, other directors who cover particular offices and managers with strategic responsibilities (Principle 6.P.4). The Remuneration Committee submits to the Board its proposals on the remuneration of the Chief Executive Officer and directors holding particular positions, monitoring the application of the decisions adopted by the Board (Criterion 6.C.5.).

The Remuneration Committee carries out supporting activities in favour of the Board of Directors regarding the remuneration plan of directors and managers with strategic responsibilities.

The remuneration of directors and managers with strategic responsibilities is set to be sufficiently attractive to keep and motivate personnel with the required professional expertise to efficiently manage the Group.

The remuneration of executive directors and managers with strategic responsibilities is set with the aim of aligning their interests with the priority goal of creating value for shareholders in the medium-to-long term. As for directors with managing roles or dealing in general with company management, or for managers with strategic responsibilities, a large part of their remuneration is connected to the achievement of specific performance benchmarks, which may also be of a non-economic nature. These objectives have been determined and indicated beforehand in compliance with the general policy guidelines of the Corporate Governance Code.

The remuneration of non-executive directors is proportional to their commitment, including their participation to one or more committees.

Pursuant to the Corporate Governance Code of Listed Companies, the Committee has the following tasks:

- a) it periodically assesses the adequacy, general consistency and effective application of the general remuneration policy of executive directors, directors who cover particular offices and managers with strategic responsibilities, based on the information provided by the CEO. It also submits proposals on the issue to the Board of Directors;
- b) it submits proposals on the remuneration of the executive directors and of other directors who cover particular offices to the Board of Directors. It also submits proposals on the determination of performance benchmarks relating to the variable component of such directors' remuneration. It also monitors the relevant decisions of the Board, especially regarding the achievement of the performance goals.

The Committee shall perform its tasks in complete autonomy and full independence from the CEO.

Should the Committee be supported by a consultant on market practices in terms of remuneration policies, it shall firstly ascertain that he/she is not in a position that might compromise his/her independence of judgment.

The members of the Committee participated in all committee meetings held during their effective term of office. During the said meetings, the Committee:

- examined information on the 2017 remuneration policy, including it in the remuneration report;
- assessed the staff recruitment process;
- examined the 2018 remuneration policies for managers;
- submitted proposals to the Board with regard to the 2018 remuneration of the Chairman and the CEOs, with respect to both the fixed and variable portion of remuneration;
- discussed the aspect of medium/long-term incentives;
- assessed the provisions for 2018 variable fees in relation to the criteria of the Management by Objectives (MBO) system for all the staff;
- discussed the 2019 fees for the offices of the directors.

For additional information on the Remuneration Committee, see the Remuneration Report published pursuant to Article 123-ter of the Consolidated Law on Finance.

As part of its mandate, the Remuneration Committee has access to company information and offices in order to perform its functions, within the limits set by the Board (Criterion 4.C.1., letter e).

The financial resources made available to the Remuneration Committee to carry out its duties amount to Euro 25,000.

## **9. REMUNERATION OF DIRECTORS**

Information provided in this section is to be considered jointly with the relevant parts of the Remuneration Report, published in compliance with Article 123 of the Consolidated Law on Finance.

### **General Remuneration Policy**

The company has defined a remuneration policy for directors and managers with strategic responsibilities (Principle 6.P.4.).

In relation to top management, standard remuneration is adopted for Company's managers who are also shareholders and those who are not shareholders, and executive members of the Board.

The remuneration policy for executive directors or directors covering particular offices defines guidelines with reference to the issues and in line with the criteria listed below:

- a. the fixed and the variable components are properly balanced according to the Company's strategic objectives and risk management policy;
- b. the variable components are capped at a certain amount;
- c. the fixed component is sufficient to reward the director should the variable component not be paid because of the failure to achieve the performance objectives specified by the Board of Directors;
- d. performance objectives are predetermined, measurable, and linked to the creation of value for shareholders in the medium-to-long term;
- e. the payment of a portion of the medium-to-long term variable compensation is deferred by a reasonable period with reference to its accrual; measurement of this portion and duration of the postponement are consistent with the characteristics of the business activity carried out and with the associated risk profiles;
- f. contractual agreements are in place whereby the company may request the restitution, in whole or in part, of variable portions of the remuneration paid (or withhold amounts that have been deferred), determined based on data that subsequently proved to be clearly inaccurate;
- g. no compensation is provided following directors' early end of term of office or for failure to be reappointed.

### **Share-based compensation plans**

On 30 June 2018, the deadline for the assignment of options with reference to the 2016 Stock Option Plan expired, a plan approved by the shareholders' meeting held on 22 April 2016 in favour of executive directors and managers with strategic responsibilities, except for the Chairman.

In preparing 2016 Stock Option Plan, the Board of Directors has ensured that:

- a. the options assigned to directors to purchase shares or to be remunerated based on the share price performance price have a vesting period of three years;
- b. vesting pursuant to paragraph a) is subject to predetermined measurable performance objectives;
- c. the directors keep a portion of the shares assigned or purchased following exercise of the options until the end of their term of office, and that the managers with strategic responsibilities keep them for 3 years from exercise (Criterion 6.C.2.)

### **Remuneration of executive directors**

A significant portion of the remuneration of the directors with managerial powers is associated with the achievement of specific performance objectives indicated above and determined in compliance with the guidelines included in the general remuneration policy defined by the Board of Directors (Principle 6.P.2.).

When the authorised bodies determined the remuneration of managers with strategic responsibilities the above criteria were applied in matters of remuneration policy and compensation plans based on shares relative to the remuneration of executive directors or directors vested with particular tasks (Criterion 6.C.3.).

### **Remuneration of managers with strategic responsibilities**

A significant portion of the remuneration of managers with strategic responsibilities is associated with the attainment of previously indicated specific performance objectives determined in compliance with the guidelines contained in the general remuneration policy defined by the Board of Directors (Principle 6.P.2.).

In determining the remuneration of managers with strategic responsibilities, the delegated bodies applied the above-mentioned criteria on remuneration policy and share-based compensation plans for executive directors or directors covering particular offices (Criterion 6.C.3.).

### **Incentive plans for the Manager responsible for internal audit and the Manager responsible for preparing corporate accounting documents**

The incentive plans for the Manager responsible for internal audit and the Manager responsible for preparing corporate accounting documents are consistent with their duties (Criterion 6.C.3.).

### **Remuneration of non-executive directors**

Non-executive directors' remuneration is not connected to the economic results achieved by the Issuer; it is determined based on a fixed amount (Criterion 6.C.4.). Non-executive directors and independent directors are not involved in stock options incentive plans (Criterion 6.C.4.).

The Shareholders' Meeting held on 19 April 2018 approved the Directors' Remuneration Report prepared by the Board of Directors.

**Severance package for directors in the event of resignation, dismissal or termination of the relationship following a public takeover bid** (pursuant to Article 123-*bis*, paragraph 1, letter i) of the Consolidated Law on Finance)

No agreements have been signed between the Company and its directors providing a severance package in case of resignation or dismissal without just cause or if the term of office ends because of a takeover bid.

An end-of-term severance package equal to 25% of the fee for particular offices resolved upon and accrued each year was confirmed by the Shareholders' Meeting held on 21 April 2017 in favour of the Chairman of the Board of Directors. It shall be paid when the term of office as Member of the Board of Directors ends.

With the other directors no severance agreements were signed in case of resignation or dismissal /dismissal without just cause or if their term of office ends because of a takeover bid.

The company discloses, in the event of withdrawal from office and/or termination of the employment relationship with an executive director or general manager, following the internal processes to determine the assignment or recognition of a severance package and/or other benefits, detailed information in this regard, through a press release (Principle 6.P.5).

The market disclosure pursuant to principle 6.P.5 includes (Criterion 6.C.8.):

- a) adequate information on the severance package and/or other benefits, including the relative amount, timing of the disbursement - distinguishing the part disbursed immediately from the part subject to deferral, as well as the components assigned for the role of director from those regarding any employment relationships - and any restitution clauses, with particular regard to:
  - 1) severance package for end of term of office or employment termination, specifying the case in which said amounts accrue (for example, expiry of office, dismissal from office or compromise agreement);
  - 2) maintenance of the rights connected to any monetary incentive plans or incentive plans based on financial instruments;
  - 3) (monetary or non-monetary) benefits subsequent to withdrawal from office;
  - 4) non-compete agreements, describing the main contents;
  - 5) any other compensation assigned for any reason and in any form;
- b) information on the compliance or non-compliance of the severance package and/or other benefits with the guidelines contained in the remuneration policy, and in the event of even partial deviations with regard to the guidelines in said policy, information on the resolution procedures followed in application of the Consob regulations on transactions with related parties;
- c) information on the application or non-application of mechanisms that place limitations on or

- adjust payment of the severance package in the event in which termination is due to the achievement of objectively inadequate results, and any formulation of requests for restitution of amounts already paid;
- d) information on the fact that replacement of the withdrawing executive director or general manager is governed by a specific plan adopted by the company and, in any case, information on the procedures that have been or will be implemented in replacing the director or manager.

The 2016 Stock Option Plan envisaged for all beneficiaries, including directors and managers with strategic responsibilities, that in the case of a Takeover Bid or in any case upon occurrence of an event that could affect the rights of beneficiaries or the possibility to exercise the options (such as mergers, de-mergers, revocation of the listing of the Shares, promotion of takeover bids or other events that could impact exercisability of the Options), the options could immediately become exercisable in proportion to the period of time elapsed from the beginning of the vesting period until the date of the event, with respect to the regular vesting period. The remaining Options could be cancelled.

## 10. RISKS AND INTERNAL CONTROLS COMMITTEE

The Company has set up a Risks and Internal Controls Committee (Principles 7.P.3. and 7.P.4.).

**Composition and functions of the Risks and Internal Controls Committee** (Article 123-bis, paragraph 2, letter d), of the Consolidated Law on Finance)

The Risks and Internal Controls Committee comprises three independent directors (Fabienne Dejean Schwalbe, Stefania Saviolo and Valentina Cogliati) (Principle 7.P.4.) (Criterion 4.C.1., letter a). Ms Fabienne Dejean Schwalbe is the Committee Chair. Minutes of the Risks and Internal Controls Committee meetings have been duly taken (Criterion 4.C.1., letter d) and the Chairman of the committee has informed and updated the Board on the activities carried out and decisions made during the next relevant meetings.

With effect as from 18 April 2018 Teresa Cristiana Naddeo and Andrea Lanciani ceased to be directors and thus members of Risks and Internal Controls Committee. On 18 April 2018, the Board of Directors appointed Valentina Cogliati as member of the Risks and Internal Controls Committee. The number of members therefore fell from 4 to 3.

The Committee held seven meetings in 2018, coordinated by the Chairman, on 6 March, 9 May, 12 and 31 July, 26 September, 18 October and 11 December. The directors participated in all committee meetings held during their effective term of office. At least 5 meetings have been scheduled for 2019. The first meetings of the Risks and Internal Controls Committee for 2019 were held on 30 January and 1 March 2019.

At least one member of the Risks and Internal Controls Committee has experience in accounting and finance issues deemed to be suitable by the Board upon appointment (Principle 7.P.4.)

The Chairman and the other members of the Board of Statutory Auditors have taken part in the Risks and Internal Controls Committee meetings (Criterion 4.C.1., letter f). The Statutory Auditors had an average attendance of 81%.

Under invitation by the Committee, non-members have taken part in the Risks and Internal Controls Committee's Meetings (Criterion 4.C.1., letter f). In 2018, Mr Paolo Matarazzo, Chief Financial Officer and Manager responsible for preparing corporate accounting documents, regularly attended meetings of the committee and was called upon to act as secretary. Marco Guida, CEO and Executive Director in charge of overseeing the internal control and risk management system, and Luigi Piccinno, Internal Auditor, also attended. Based on the items on the agenda, Mr Paolo Passino, Chairman of the Supervisory Body, and the partner and senior manager of the auditing firm EY S.p.A., attended meetings, along with Eugenio Forcinito, administrative director for Italy, and legal and financial consultants.

### **Functions of the Risks and Internal Controls Committee**

The Risks and Internal Controls Committee carries out supporting activities in favour of the Board of Directors on the internal control system and on the approval of year-end financial statements and half-yearly reports. Since it monitors corporate activities in general, it also has consultative and advisory functions. In particular, according to the Corporate Governance Code of Listed Companies, the Risks and Internal Controls Committee has been assigned the following tasks:

- a) to assist the Board of Directors in identifying the guidelines of the internal control and risk management system and verify that such system is suitable and effective from time to time, in order to ensure that the main corporate risks are adequately identified and managed (Criterion 7.C.1.);
- b) to assess, together with the Manager responsible for preparing corporate accounting documents, having heard the External Auditors and the Board of Auditors, the proper implementation of the accounting standards and their consistency for the purposes of the consolidated financial statements (Criterion 7.C.2., letter a);
- c) to express opinions on specific issues concerning identification of the company's main risks (Criterion 7.C.2., letter b);
- d) to examine periodic reports on assessment of the internal control and risk management system and specific reports by internal audit (Criterion 7.C.2., letter c);
- e) monitor the autonomy, adequacy, effectiveness, and efficiency of the internal audit function (Criterion 7.C.3., letter d);
- f) to request the internal audit function – if necessary – to conduct inspections on specific operational areas, promptly informing the Chairman of the Board of Statutory Auditors (Criterion 7.C.2., letter e);
- g) to report to the Board of Directors, at least every six months, on the occasion of the approval of the year-end financial statements and the half-yearly report, on the adequacy of the internal control and risk management system (Criterion 7.C.2., letter f);
- h) to assess the position and ensure the effective independence of the Director in charge of the Internal Control and Risk Management System, based on the provisions of Legislative Decree no. 231/2001 on the corporate administrative liability;
- i) to assess, with the assistance of the Director in charge of the Internal Control and Risk



Management System the manager of administrative functions and the manager responsible for internal audit, the proposals submitted by the External Auditors applying for the audit position, advising the Board on the issue which shall be submitted to the Shareholders' Meeting by the latter;

- j) to support, with adequate information-gathering activity, the assessments and decisions of the Board of Directors with regard to the management of risks arising from prejudicial facts of which the Board of Directors has become aware (Criterion 7.C.2., letter g).

The Risks and Internal Controls Committee should perform its task in a completely autonomous and independent manner both from the CEO (on business integrity issues) and the External Auditors (on assessment of results mentioned in the report and in the letter of recommendations).

During said meetings, the Committee also examined:

- the 2017 consolidated financial statements, the 2018 half-yearly report and the results on the auditing process, as well as the interim reports;
- the assessments of the impairment tests;
- the assessments of the adequacy of the accounting standards used and their consistency;
- the transactions with related parties;
- the analysis of the results of the Board's and Committees' self-assessment process;
- the assessment of the activities for adaptation to the GDPR legislation and the organisational set-up of the internal IT function;
- the reports by the Supervisory Board on Law 231 and activities for updating the Organisation Model;
- the report on Corporate Governance and shareholding structure;
- the Group's risk assessment activities;
- risk and opportunity assessment for updating the business plan;
- the risk and opportunity assessment for the Cheleo acquisition transaction, the results of the due diligence activities, the independent fairness opinion;
- risk and opportunity assessment relating to the TXT Sense transaction;
- risk and opportunity assessment relating to the T3M acquisition transaction;
- risk assessment for the 2019 Budget;
- formulation of proposals to the Board for the Diversity Policy of the Board of Directors.

As part of its mandate, the Risks and Internal Controls Committee has access to company information and offices and can appoint external consultants to the end of performing its functions, within the limits set by the Board (Criterion 4.C.1., letter e).

The financial resources available for the Risks and Internal Controls Committee to carry out its duties were set at €25,000.

## **11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

In defining the strategic, industrial and financial plans, the Board defined the nature and level of risk compatible with the Company's strategic objectives, including in its assessments all of the risks that might be significant with a view to medium to long-term sustainability of the activities of the Issuer (Criterion 1.C.1., letter b).

The risk management system cannot be considered separately from the internal control system with regard to the financial reporting process; in fact, they are both part of the same system. This system is aimed at ensuring reliability, accuracy and timeliness in financial reporting.

The definition of this system, on the basis of the Corporate Governance Code indicates: "The set of rules, procedures and organisational structures aimed at making possible, through appropriate identification, measurement, management and monitoring of the main risks, an effective and correct management of the Company, consistent with pre-set goals".

In compliance with the Code, the internal control and risk management system also involves:

- i) the Board of Directors that sets the system guidelines and assesses its adequacy and effective operations, through the appointment of the Risks and Internal Controls Committee and its regular reporting activities;
- ii) the CEOs who implement the guidelines defined by the Board of Directors and in particular, identify the main corporate risks thanks to the support of directors in charge of internal control;
- iii) the Risks and Internal Controls Committee with consultative and advisory functions, relating also to the assessment of the adequacy and correct use of the Company's accounting standards;
- iv) directors in charge of internal control who verify, within internal processes, whether the defined controls are adequate with respect to the potential risks and suggest to the Committee and management, where necessary, the adoption of any measures aimed at eliminating risks of a financial nature and enhancing the efficiency and effectiveness of the corporate processes.

The Board of Directors is responsible for defining the global policies of the internal control and risk management system, setting the guidelines and regularly overseeing its adequacy and effectiveness thanks to the support of the Directors in charge of internal control. The responsibility for implementing the internal control and risk management system, in terms of carrying out and managing the measures, mechanisms, procedures and rules, fully applies to all the Company's functions.

The Board of Directors shall also ensure that the main risks faced by the Company are identified and adequately managed.

The Company's internal control and risk management system relating to financial reporting is based on the "COSO Report" model that considers "the internal control system as a set of mechanisms, procedures and tools aimed at ensuring achievement of corporate goals".

The aims of the financial reporting process are the accuracy, reliability, trustworthiness and timeliness of the information disclosure. Risk management is an integral part of the internal control system. The periodic assessment of the internal control system on the financial reporting process aims to verify that the components of the COSO Framework (control environment, risk assessment, control activities, information and communication, monitoring) are properly working together to

achieve these objectives. The Company has implemented administrative and accounting procedures that ensure high standard reliability of the internal control on financial reporting.

The approach adopted by the Company on the assessment, monitoring and continuous updating of the internal control and risk management system in terms of financial reporting allows that assessment is carried out on critical areas with higher risk/importance, i.e. where the risks of material mistakes are higher, also due to fraud, on financial statements items and on related documents. The identification and assessment of possible errors that could have significant effects on financial reporting takes place through a risk assessment process that identifies organisational entities, processes and related accounting entries and the specific activities that could generate any significant errors. According to the methodology adopted by the Company, risks and related controls are associated to accounts and business processes generating accounting items.

Once identified by the risk assessment process, the significant risks shall be identified and assessed by specific tools (key controls) that ensure their coverage, thus limiting the risk of any potentially significant error on Financial Reporting.

Based on international best practice, the Group has implemented two types of control:

- controls at Group or subsidiary level for assignment of responsibilities, powers and delegation, duties and allocation of privileges and access rights for IT applications;
- controls at process level, such as the issue of authorisations, reconciliation processes, compliance tests, etc. This category includes controls relating to operational processes, period-end accounting and cross-cutting controls. Such controls may be "preventive" with the aim of preventing the occurrence of anomalies or fraud that could cause errors in financial reporting or "detective" with aim of detecting any anomaly or fraud that has already occurred.

The assessment of controls, where appropriate, may require the identification of compensation controls, corrective action or improvement plans. The results of monitoring activities are regularly examined by the Manager responsible for preparing the corporate accounting documents. They are then reported to top management and to the Risks and Internal Controls Committee, which in turn reports to the Parent Company's Board of Directors and Board of Statutory Auditors.

Internal control and risk management system (Principle 7.P.2.):

- contributes to operating the company in accordance with the objectives defined by the Board, encouraging the adoption of informed decisions;
- participates in ensuring safeguarding of the company assets, efficiency and effectiveness of the company processes, reliability of the information provided to the corporate bodies and to the market, and respect of laws and regulations, as well as of the company by-laws and internal procedures.

### 11.1. Executive Director in charge of the internal control and risk management system

On 21 April 2017 the Board of Directors confirmed the appointment on 8 March 2010 of the CEO, Marco Guida, as the Executive Director in charge of supervising the internal control system (Principle 7.P.3., letter a) no. (i)).

The Executive Director in charge of supervising the functions of the internal control and risk management system was responsible for the following activities:

- together with the Supervisory Board, he was in charge of identifying the main corporate risks, taking into account the features of the business carried out by the Company and its subsidiaries. His findings were submitted to the Risks and Internal Controls Committee and to the Board of Directors (Criterion 7.C.4., letter a);
- he implemented the guidelines adopted by the Board, managing the drafting, implementation and management of the internal control and risk management system, verifying its general adequacy, efficacy and effectiveness (Criterion 7.C.4., letter b);
- he aligned the system with the operating activities and with the current regulatory framework (Criterion 7.C.4., letter c);
- he has the power to request the internal audit function to conduct inspections on specific operational areas and on the compliance with the rules and internal procedures in performing company activities, promptly informing the Chairman of the Board, the Chairman of the Risks and Internal Controls Committee and the Chairman of the Board of Statutory Auditors (Criterion 7.C.4., letter d);
- during the Board of Director's meeting of 12 May 2011, he proposed the appointment of Luigi Piccinno as Manager responsible for internal audit (Principle 7.P.3., letter c).

## 11.2. Manager responsible for Internal Audit

On 12 May 2011, the Board of Directors appointed Luigi Piccinno as Manager responsible for internal audit, with the task of checking the consistency of the internal control and risk management system, its operations and effectiveness. (Criterion 7.P.3., letter b).

The appointment was made on advice of the Executive Director in charge of internal control and risk management system, following consultations with the Risks and Internal Controls Committee and the Board of Statutory Auditors (Criterion 7.C.1., part two).

The Manager responsible for internal audit's remuneration, following the opinion of the Risks and Internal Controls Committee, has been determined in accordance with company policies and is sufficient for him to carry out his duties (Criterion 7.C.1., part two).

The Manager responsible for internal audit:

- a. Is a Member of the 231 Supervisory Body. He reports directly to the Executive Director in charge of the Internal Control and Risk Management System. The Board of Directors, after consulting with the Risks and Internal Controls Committee and with the Executive Director in charge of the internal control and risk management system, deemed this solution adequate and balanced, in view of the relatively small size of the Group and its streamlined operating structure (Criterion 7.C.5., letter b);
- b. Verifies, both on an ongoing basis and in relation to specific needs and in compliance with international standards, the operations and suitability of the internal control and risk management system, by means of an audit plan, approved by the Board of Directors based on structured analyses and priorities (Criterion 7.C.5., letter a);
- c. Had direct access to useful information for carrying out his duties (Criterion 7.C.5., letter c);

- d. Prepared a report containing adequate information on his activity, on the method with which risk management is conducted as well as on the compliance with the plans defined for their management, in addition to an assessment on the adequacy of the internal control and risk management system (Criterion 7.C.5., letter d) and submitted it to the Chairman of the Board of Statutory Auditors, the Chairman of the Risks and Internal Controls Committee and the Chairman of the Board of Directors as well as to the Director in charge of the internal control and risk management system (Criterion 7.C.5., letter f);
- e. Reported to the Risks and Internal Controls Committee and to the Board of Statutory Auditors on the activities performed (Criterion 8.C.6., letter e) and also reported on his activities to the Executive Director in charge of supervising the internal control system (Principle 7.P.5., letter f).
- f. Verifies, within the sphere of the audit plant, the reliability of the information systems including the accounts registration systems (Criterion 7.C.5., letter g).

The Manager responsible for internal audit, in carrying out his functions, was supported by an external consultant in 2018, Mr Marco Masante (Criterion 7.C.6.).

### 11.3. Organisation model pursuant to Legislative Decree No. 231/2001

The Board Meeting held on 14 March 2008 approved the Organisation model in compliance with the provisions of Legislative Decree No. 231/2001. Such model includes the Code of Ethics with binding rules and principles for directors, employees, consultants, external staff and suppliers.

To define the organisation, management and control model, TXT adopted a planning approach that allows to use and integrate in such model the existing rules as well as to integrate any new offences defined by the law. The TXT model structure aims at making controls and procedures within the Group as efficient and consistent as possible.

This approach: i) enhances the existing corporate assets in terms of internal policies, regulations and rules addressing and governing risk management and control procedures; ii) makes it possible to promptly update rules and methods to be communicated within the Company, subject to future fine-tuning; iii) makes it possible to manage all corporate operating rules in the same way, including those pertaining to “sensitive issues”.

The TXT model is composed of:

- a) the General Part;
- b) the Code of Ethics and the organisation procedures that are already in force within TXT and pertain to the control of conducts, events or acts relevant to Legislative Decree No. 231/2001. The Code of Ethics and the procedures in force, even if they have not been explicitly issued pursuant to Legislative Decree no. 231/2001, aims at monitoring that the conduct of TXT representatives or employees is correct, accurate and compliant with the law, and therefore, they contribute to ensure crime prevention according to Legislative Decree no. 231/2001;
- c) the Special Part, concerning the specific offence categories that are relevant for TXT and the applicable provisions.

On 5 August 2010, the Board approved updating of the Code of Ethics and the Organisation Model, in particular with reference to the company activities in the software and IT systems sector and to

the expertise it has accrued over recent years. The most significant updates regard the activities in terms of workplace safety, also with regard to sub-contracts and dealings with third parties, along with the distinctive realm of cyber crimes.

The analysis focused on the planning methods, principles and measures used to identify corporate risks and to subsequently assess regulations and procedures of operating activities, the general features of controls, protocols and procedures to monitor those fields potentially at risk. It also included tasks, powers, ineligibility and incompatibility reasons that would result in the Supervisory Board's end of term of office pursuant to said regulations. During its supervision activities, the Board shall regularly report to the Executive Director in charge of the internal control system, and periodically to the Board of Directors in reference to the degree of implementation, effectiveness and operating efficiency of the Model.

The Board has updated the risk report with "as is" and gap analysis, along with the Code of Ethics, the Supervisory Board's regulations and the "Organisation and Management Model 231", and it confirmed Mr Marco Edoardo Guida as the Executive Director in charge of the Internal Control and Risk Management System, with the power to modify the operating tools, including those of the Organisation Model, as well as any operating procedure and/or company control protocol that shall be adopted in order to monitor new activities or new aspects of previously existing activities. He was also granted the power to approve any changes that may be implemented to the operating procedures and/or existing company control protocols, in order to meet the organisation and updating requirements, as requested by the various relevant bodies and by the Supervisory Board as well.

The Organisation Model was updated on 30 July 2015, particularly following the reform on corporate crime, the new crime of money laundering, the reform on corruption and the new environmental crimes.

The Board of Directors on 21 June 2018 appointed Mr. Paolo Passino as Chairman of the Supervisory Body in replacement of Mr. Marco Masante who covered the office for 10 years. Paolo Passino is a Senior associate care of Studio Ferrari, Pedferri & Boni, with experience in the sphere of corporate law, corporate governance, extraordinary transactions, M&A, mercantile law and the administrative liability of corporate bodies with appointments in the supervisory bodies of industrial and service companies and experience with regard to organisation, management and control models and risk assessment. The Board has also appointed Mario Basilico as member of the Supervisory Authority, already Chairman of the Board Of Statutory Auditors, and confirmed Luigi Piccinno already member for many years and an internal auditor. The TXT Supervisory Body is therefore made up of 3 members.

The Supervisory Board is responsible for overseeing functioning and compliance of the Model, as well as handling its update, submitting proposals to the Board for any updates and amendments to the Model adopted. The Supervisory Board reports to the Board of Directors on a half-yearly basis with regard to the Model's application and effectiveness.

On 1 October 2014, the company adopted a Policy for the prevention of corruption (available online on the company website at: <http://www.txtgroup.com/it/governance/Pagine/codeofethics.aspx>) and disseminated a specific procedure to all employees of Group companies.

The Organisation Model is available on the Company's website at the following address:

<http://www.txtgroup.com/it/governance/Pagine/organizationalmodel231.aspx>

#### 11.4. External Auditors

The Shareholders' Meeting of 23 April 2012 appointed EY S.p.A., Via Meravigli 14 - 20123 Milan as External Auditors for the years 2012 to 2020, following the proposal of the Board of Statutory Auditors.

Their tasks include auditing the annual financial statements, limited auditing of the half-yearly reports, as well as monitoring activities under Article 155 of the Consolidated Law on Finance.

#### 11.5. Manager responsible for preparing corporate accounting documents

On 14 February 2008, the Board of Directors, with a favourable opinion of the Board of Statutory Auditors, appointed Mr Paolo Matarazzo as Manager responsible for preparing corporate accounting documents. Mr Paolo Matarazzo is an executive director and also the Group's Chief Financial Officer (Principle 7.P.3., letter c).

The Manager responsible for preparing corporate accounting documents arranges appropriate administrative and accounting procedures to prepare of the consolidated and statutory financial statements, as well as all other financial documents. The delegated bodies and the Manager responsible for preparing corporate accounting documents certify the equity, income and financial disclosure pursuant to legal requirements.

The Board of Directors oversees that the Manager responsible for preparing corporate accounting documents can access suitable instruments to perform his tasks and that administrative and accounting procedures are effectively complied with.

#### 11.6. Coordination between the parties involved in the internal control and risk management system

The various Company parties involved in the internal control and risk management system (the Board of Directors, the Director in charge of the internal control and risk management system, the Risks and Internal Controls Committee, the Manager responsible for internal audit, the Manager responsible for preparing corporate accounting documents and other company roles and functions with specific duties of internal control and risk management, and the Board of statutory auditors) shall coordinate their own activities and exchange relevant information during periodic meetings and, if necessary, during specially convened meetings (Principle 7.P.3.). In particular, during 2018, the parties involved in the internal control system met and exchanged information in two meetings: 6 March and 31 July (Criterion 7.C.1., letter d.).

## 12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are defined by international accounting standards (notably IAS 24) and also involve consolidated subsidiaries 100%-owned by the Company. Transactions between the Company and its subsidiaries are mainly of an on-going commercial nature, based on agreements which do not feature any unusual clauses differing from standard market practices for transactions at arm's length.

In view of the nature of transactions and their ordinary character in line with market practices, the Board deemed it unnecessary to apply for a "fairness opinion" to be provided by an independent expert to the end of assessing the economic consistency of the transactions. As stated above, transactions with related parties, with significant income, equity and financial value, are reserved to the Board of Directors.

With reference to the disclosure to the Board of Directors, except for necessary and urgent events, all transactions with significant income, equity and financial value, significant transactions with related parties and atypical and/or unusual transactions are submitted to the prior approval of the Board of Directors.

As for transactions with related parties, including intra-group transactions, not submitted for Board approval as deemed typical or usual and/or at standard conditions – i.e. at the same conditions applied by the Company to any other party – the CEO or the Managers in charge of the transactions, without any prejudice to the dedicated procedure pursuant to Article 150, paragraph 1, of the Consolidated Law on Finance, shall collect and preserve, by type or group of transactions, adequate disclosure on the nature of the transaction, its methods of execution, conditions, whether economic or otherwise, of implementation, on the assessment method adopted, underlying interests and reasons and any risks for the Company.

Despite their subject and value being pertinent, prior approval of the Board of Directors is not required for transactions which:

- are executed at market conditions or at the same conditions applied to parties other than the related parties;
- are typical or usual – i.e. they fall under the Company's ordinary operations as for their subject, nature and degree of risk, as well as execution period.

In any event, the Board of Directors shall be duly notified about such transactions as well.

On 8 November 2010, the Board of Directors approved a new implementation procedure, pursuant to Article 2391-*bis* of the Italian Civil Code, the Corporate Governance Code of Listed Companies, and the Consob Regulation on related parties, approved by Resolution no. 17221 of 12 March 2010 (the "Consob Regulation"). This new procedure identifies the rules governing the determination, approval and execution of transactions with related parties of TXT e-solutions S.p.A., either directly or through subsidiary companies. The purpose of this procedure is to ensure the formal and material transparency of said transactions.

"Significant Transactions with Related Parties" refer to:



i) Transactions exceeding the lower of €500,000 or 5% of any of the following relevance ratios, to be applied according to the specific transaction:

- Amount relevance ratio: the ratio between the transaction amount and the net equity resulting from the latest published TXT consolidated balance sheet or, if greater, the TXT capitalisation at the end of the last trading day included in the period covered by the latest periodic report (annual, half-yearly or interim reports) published. Should the economic conditions of the transaction be determined, the transaction amount shall be:
  - a. for cash components, the amount paid by or to the other party;
  - b. for financial instrument components, the fair value determined at the date of the transaction, in accordance with international accounting standards adopted by Regulation (EC) No. 1606/2002;
  - c. for funding or guarantees, the maximum amount payable.

If the economic conditions of the transaction depend, in whole or in part, on items not yet known, the transaction amount is the maximum amount allowable or payable under the agreement.

- Asset relevance ratio: the ratio between the total assets of the entity involved in the transaction and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet. Where possible, similar data should be used for determining the total assets of the entity involved in the transaction.

For transactions involving the acquisition and disposal of shares in companies that have an impact on the area of consolidation, the value of the numerator is the total assets of the investee, regardless of the percentage of capital concerned.

For transactions involving the acquisition and disposal of shares in companies that do not have an impact on the area of consolidation, the value of the numerator is:

- a. in the case of acquisition, the transaction amount, plus the liabilities of the company acquired taken on by the purchaser, if any;
- b. in the case of disposal, the amount of the sold asset.

For transactions involving the acquisition and disposal of other assets (other than the acquisition of company shares), the value of the numerator is:

- a. in the case of acquisition, the higher of the consideration or the carrying amount that will be attributed to the asset;
- b. in the case of disposal, the carrying amount of the asset.

- Liabilities relevance ratio: the ratio between the total liabilities of the entity acquired and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet, if drawn up. Where possible, similar data should be used for determining the total liabilities of the company or business branch acquired.

ii) Transactions with the listed parent company or any entities related to the latter which are in

turn related to TXT, where at least one of the above-mentioned relevance ratios exceeds 2.5%;

- iii) and transactions with related parties that may have consequences on the management independence of the Company (including those concerning intangible assets), exceeding the relevance thresholds of 5.0% as stated in (i) or 2.5% if conditions pursuant to point (ii) apply.

In order to calculate the aforementioned amounts, each single transaction is considered, or, should several transactions be connected because of the same purpose or goal, the total amount of all connected transactions is considered.

The Board of Directors is in charge of decisions regarding Transactions with Related Parties, and the Significant Transactions with Related Parties (hereinafter the “Transactions”). In order to make decisions, the Board shall receive, with reasonable prior notice, adequate and complete disclosure on the features of the Transactions, such as the nature, means of execution, conditions, including economic conditions, interests, underlying reasons and any risks for the Company. Both in the information-gathering phase and in the decision-making phase, the Board of Directors shall attentively examine the Transactions. This analysis shall be supported by adequate documentation showing the reasons for the Transactions, their profitability, and that the transaction conditions are materially correct. In particular, should the Transaction conditions be equivalent to market or standard conditions, detailed supporting documentation shall be provided.

The Board of Directors decides on the Transactions after justified, non-binding advice of a committee solely composed of non-related non-executive directors, with the majority of them being independent (the “Related Parties Committee”) which examines the interests of the Company in reference to the Transaction, its profitability and if its conditions are materially correct.

In order to issue non-binding advice, the Related Parties Committee shall receive exhaustive and adequate disclosure on the Transactions and their features. The Related Parties Committee may be supported – at the Company’s expenses – by one or more independent experts that are not related and have no direct or indirect personal interest in the Transaction, and are chosen by the Related Parties Committee itself. These experts may express an opinion or draft a report on the economic conditions and/or the technical aspects and/or on the legitimacy of the Transactions. The maximum amount that may be charged to the Company shall be proportional to the value of the Transaction, and in any case, it shall not exceed € 20,000 for each single transaction.

The Board of Directors and the Board of Statutory Auditors shall receive exhaustive disclosure on Transactions.

The decision of the Board of Directors may be taken despite advice to the contrary from the Related Parties Committee.

Should the Transaction involve the interest of one of the TXT directors, the director qualifying as the related party shall promptly inform the Board of Directors about the existence of a personal interest, pursuant to Article 2391 of the Italian Civil Code, and he/she shall abstain from voting on the issue. If the Board of Directors deems that the presence of the aforementioned director during the information-gathering or decision-making phases is useful, he or she may take part in the process, after the Board of Statutory Auditors has been consulted on the issue.

The resolutions of the TXT Board of Directors on the Transactions shall provide full information on the interests of the Company, reasons, profitability and material correctness of the Transactions for the Company and the group to which the Company belongs (the "TXT Group"). Should said Transactions be the responsibility of the Shareholders' Meeting or should they be authorised by the latter, pursuant to the law or the By-Laws, the aforementioned procedure shall apply to the negotiation, information-gathering and decision-making phases.

Transactions of less than € 100,000 are excluded from the aforementioned procedure, as long as they do not represent a risk and they do not have a significant impact on the Company's equity and financial position. Similarly, the remuneration plans based on financial instruments approved by the Shareholders' Meeting, pursuant to Article 114-*bis* of the Consolidated Law on Finance and related implementation provisions, are also excluded from this procedure, also in light of the Shareholders' Meeting competence and rigorous disclosure process. Furthermore the decisions taken by the Shareholders' Meeting on issues stated in Article 2389, paragraph 1, of the Italian Civil Code, regarding remuneration of members of the Board of Directors and the Executive Committee, are likewise excluded from this procedure, as well as the decisions on the remuneration of directors who cover particular offices up to the amount decided by the Shareholders' Meeting pursuant to Article 2389, paragraph 3, of the Italian Civil Code. Finally, resolutions on remuneration of directors who cover particular offices not included in the aforementioned examples and of Managers with strategic responsibilities are excluded from this procedure, provided that:

- the Company has implemented a remuneration policy;
- a committee composed of mainly independent non-executive directors has been set up to deal with the remuneration policy;
- the Shareholders' Meeting has approved the report concerning the remuneration policy or it has expressed its opinion on it;
- the remuneration is consistent with the relevant corporate remuneration policy.

Transactions with or between companies controlled, even jointly, by TXT are excluded from this procedure, as long as in the TXT-controlled companies there are no significant interests of other parties related to the Company. Interests are considered as non-significant if they are limited to the fact that one or more directors or Managers with strategic responsibilities hold office both with TXT and its subsidiaries.

Transactions with associated companies are also exempt from the procedure concerning Transactions with Related Parties, as long as the associated companies do not have any significant interests of other Company's related parties.

Ordinary transactions that are performed at market or standard conditions are completely excluded from this procedure.

This procedure is available on the Company's website at the following address:

<http://www.txtgroup.com/it/governance/Pagine/otherinformation.aspx>

The Transactions with related parties Committee comprises Fabienne Schwalbe (Chairwoman) and Stefania Saviolo, both independent directors.

The Transactions with related parties Committee met on 9 May 2018 to assess the remuneration for the special offices and powers of the directors.

The Transactions with related parties Committee saw to the due diligence checks and procedures for the acquisition of Cheleo S.r.l., a product specialist for the management of the life cycle of the financing. The majority of Cheleo's share capital is held, indirectly through Laserline S.p.A., by Enrico Magni, the relative majority shareholder and Chief Executive Officer of TXT and consequently a related party in the transaction.

The Committee met on 21 June 2018 to preliminarily analyse the appropriateness of acquiring Cheleo S.r.l.; it defined the importance of the transaction; it chose the advisor for the Fairness Opinion; it examined the draft Letter of Intent; it expressed an opinion with regard to the launch of the Due Diligence activities, and it assessed the composition of the operational team for the Due Diligence activities. The Committee also met on 25 July 2018 to analyse the fairness opinion of the independent consultant and expressed a positive non-binding opinion on the Transaction.

On 31 July 2018 a contract was entered into for the acquisition of Cheleo given this is a Transaction of Major importance and on 3 August 2018 a disclosure document pursuant to Article 5 of the Regulation was published containing the provisions regarding related party transactions, available of the Company's website via the following link:

<https://www.txtgroup.com/it/governance/altri-documenti/>

The Transactions with related parties Committee saw to the due diligence checks and procedures for

the Sense immaterial Reality S.r.l. transaction. On 11 October 2018, TXT participated in the establishment of the start-up Sense immaterial Reality S.r.l. by subscribing shares representing 24% of its share capital for a total value of €48 thousand. The purpose of the company is to develop proprietary technologies for a 3D active representation and New Augmented Reality with applications designed for the industry, communication and service sectors. Therefore, TXT has a minority investment in the research project, formerly managed internally and fully consolidated through the TXT Sense Division. Alvise Braga Illa, Chairman of the Board of Directors and shareholder of TXT with an interest of 14.02% of the share capital, holds a majority interest in the share capital of Sense immaterial Reality S.r.l., i.e. 76% of its share capital. Therefore, Alvise Braga Illa qualifies as a related party in the above transaction.

The Committee met on 19 September 2018 and 9 October 2018 to analyse the Sense immaterial Reality appropriateness, define the importance of the transaction, choose the advisor for the Fairness opinion and analyse the fairness opinion. The Committee expressed a non-binding favourable opinion on the existence of the interest of the Company in carrying out the Transaction by TXT, as well as the suitability and essential correctness of the Transaction's conditions. On 9 October 2019, the transaction was approved unanimously by the Board of Directors, with the favourable opinion of the Board of Statutory Auditors. Since it is a transaction of minor importance, the Company has provided information under the section Events subsequent to the Interim report for the first 9 months published on 6 November 2018.

### 13. APPOINTMENT OF STATUTORY AUDITORS

The Board of Statutory Auditors' appointment is expressly governed by the Company's By-Laws.

The Board of Statutory Auditors consists of three Standing Auditors and three Alternate Auditors.

The Ordinary Shareholders' Meeting appoints the Board of Statutory Auditors in compliance with current regulations on gender balance and determines its members' remuneration. Minority shareholders have the right to elect the Chairman of the Board of Statutory Auditors and an Alternate Auditor.

Without prejudice to the provisions of the second last paragraph of this article, the appointment of the Board of Directors is based on the lists drafted by the shareholders in which the candidates are listed progressively.

The number of candidates in each list is not greater than the number of members to be elected.

The lists that contain three or more candidates must be comprised of candidates from both genders, with a minimum of two candidates for each gender if the list consists of six candidates.

Such lists may be submitted by those shareholders who, either alone or together with others, own at least 2% (two per cent) of shares with voting rights during the Ordinary Shareholders' Meeting.

The lists shall be deposited at the issuer's offices no later than 25 days before the date fixed for the Shareholders' Meeting resolving on the appointment of Board of Statutory Auditors' members and they shall be available to the public at the Company's registered office, on its website, and by any other means provided for by Consob Regulation at least 21 days before the date fixed for the Shareholders' Meeting.

The lists must also include a description of the candidates' professional background and a list of offices held as director or auditor in other companies and declarations in which individual candidates accept their candidacy and, under their own responsibility, certify the absence of ineligibility and incompatibility reasons and the possession of relevant regulatory requirements provided for by the law or the By-Laws.

Lists that do not comply with the provisions previously described are considered as not submitted.

Each candidate may appear in one list only, under penalty of being ineligible to qualify as a candidate.

Likewise, individuals that do not satisfy the requirements provided for by applicable standards or who are already serving as Statutory Auditors in more than five companies listed on the Italian regulated markets cannot be elected as Statutory Auditors. Each person entitled to vote may vote for just one list.

Members of the Board of Statutory Auditors shall be elected as follows, without prejudice to provisions on gender balance.

Two standing auditors and two alternate auditors are drawn from the list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which

they were listed. The Chairman of the Board of Statutory Auditors and the other alternate auditor are drawn from the second list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order in which they were listed. In the event that several lists obtained the same number of votes, a run-off takes place between said lists and all the shareholders participating in the Shareholders' Meeting shall cast their vote. Candidates from the list that obtain a simple majority of votes are deemed elected.

If the Board of Statutory Auditors' composition does not comply with gender mix requirements provided for by current regulations, the necessary replacements shall be made from the list receiving the highest number of votes and based on the progressive order the candidates were listed in.

In the event of death, withdrawal or end of term of office of one Auditor, the alternate auditor belonging to the same list takes over.

If the Chairman of the Board of Statutory Auditors is to be replaced, the other standing Auditor drawn from the same list as the outgoing chairman shall take over the chairmanship; if, due to prior or simultaneous withdrawals from office, it is impossible to carry out the replacement following the above-mentioned criteria, a Shareholders' Meeting shall be convened to fill the vacancies of the Board of Statutory Auditors.

Pursuant to the provisions of the aforementioned paragraph or to the law, in the event that the Shareholders' Meeting is required to appoint standing and/or alternate members of the Board of Statutory Auditors to fill vacancies, the procedure shall be as follows: in order to replace Auditors from the majority list, the appointment is made by a relative majority vote without any restriction in terms of lists; if, on the contrary, Statutory Auditors from the minority list must be replaced, the Shareholders' Meetings replaces them by a relative majority vote by choosing them, where possible, from among the candidates indicated in the list to which the Statutory Auditor to be replaced belonged to.

Should just one list be presented, the Shareholders' Meeting shall vote candidates of that list; if the list obtains the relative majority of votes, the standing Auditors to be elected are the first three candidates in progressive order and the fourth, fifth and sixth candidate are Alternate auditors; the chairman of the Board of Statutory Auditors is the first person indicated in the list; in case of death, withdrawal or end of term of office of an Auditor or if the Chairman of the Board of Statutory Auditors has to be replaced, the Alternate Auditors and the Standing Auditor, respectively, shall take over the offices following the order indicated in the list.

If there are no lists, or if the list voting procedure does not elect all the standing and alternate members, the members of the Board of Statutory Auditors and if the case may be, the Chairman thereof, are appointed by the Shareholders' Meetings by the type of majority required by the law, in compliance with the current regulations on gender balance.

Outgoing Auditors may be re-elected.

## 14. COMPOSITION AND FUNCTIONS OF THE BOARD OF STATUTORY AUDITORS (Article 123-bis, paragraph 2, letters d) and d-bis), of the Consolidated Law on Finance)

The current Board of Statutory Auditors was elected, in compliance with the procedures described above, by the Shareholders' Meeting held on 21 April 2017, and it shall hold office until approval of the financial statements for the year ending 31 December 2019. On 24 March 2017, two lists of candidates for appointment to the company's Board of Statutory Auditors were deposited at the registered office. The majority list was submitted by E-business consulting SA and included Luisa Cameretti, Giampaolo Vianello, Laura Grimi and Pietro Antonio Grignani (two standing auditors and two alternate auditors, as respectively appointed). The minority list was submitted by Alvisè Braga Illa and included Mario Basilico, Massimiliano Alberto Tonarini and Barbara Premoli (from which the Chairman of the Board of Statutory Auditors and one alternate auditor were elected). The shareholders declared that there are no connections between the lists. The majority list received 62.02% of votes; the minority list 34.38%.

The Board of Statutory Auditors' current composition is shown in Table 3 attached to this Report.

No significant changes in the Board of Statutory Auditors took place after the end of the reporting period.

The professional experience of each Statutory Auditor (Article 144-*decies* of Consob Issuers' Regulations) is provided below.

### Mario Basilico

Born in Milan on 27 February 1960.

Graduated in Law from Università Cattolica di S. Cuore in Milan in 1991 and in Economics and Business in 2011. Enrolled in the register of External Auditors since 1995 under No. 3991. A partner in the professional firm of the same name, Mr Basilico is responsible for tax affairs and national and international corporate law and has experience of organising and starting up SMEs and companies in the financial sector, launching and managing supplementary pension funds, corporate financial statements for real estate brokerage, preparation of organisation models and supervisory body 231/01. He is a published author and lecture on specialist courses.

### Giampaolo Vianello

Born in Rome on 14 May 1970.

Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1988. Enrolled in the register of External Auditors since 2004 under no. 132207. Partner at "Studio Palmieri e Associati" in Como specialising in assistance with legal, corporate and tax matters. Mr Vianello is a consultant and defence counsel at Tax Committees, with regard to tax disputes, a standing auditor of 7 companies and a director of a multinational company.

### Luisa Cameretti

Born in San Giorgio a Cremano (province of Naples) on 11 November 1965.

Graduated in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1990. Enrolled in the register of Chartered Accountants and bookkeepers of Milan since 1996. Enrolled in the register of Statutory Auditors under no. 91224. Associated with the firms "Studio Tributario e Societario Borioli e Colombo" and "Studio Sciumé e Associati". She founded the firm "Zazzeron e Cameretti Associati Studio Tributario e Societario", which works in corporate and tax consulting for companies, cooperatives, associations and foundations.

### **Diversity policies and criteria**

The Company has applied diversity criteria, also with regard to gender, in the composition of the Board of Statutory Auditors (Principle 2.P.4.). In particular, the least represented gender, female, has one auditor and therefore equal to a third of the Board of Statutory Auditors (Criterion 8.C.3.).

The objectives, method of implementation and results of the application of the diversity criteria recommended by Article 8 are the following (Criterion 1.C.1., letter i), (4)).

In December 2018 the Board of Statutory Auditors, in implementation of the matters envisaged by the Consolidated Finance Law, approved a diversity policy, which describes the optimum characteristics of the composition of said board so that it may exercise its supervisory duties in the most effective way, adopting decisions which may effectively avail themselves of the contribution of a plurality of qualified points of view, capable of examining the aspects in question from different perspectives. The principles inspiring this policy are the same as those illustrated in relation to the document approved by the Board of Directors (in relation to which reference is made to this section "Board of Directors - Policy on the diversity of the Board of Directors").

With reference to the types of diversity and the related objectives, the policy approved by the Board of Statutory Auditors (available on the Company's website) envisages that:

- it is important to continue to ensure that at least a third of the Board of Statutory Auditors, both at the time of appointment and during the mandate, is made up Statutory Auditors of the least represented gender;
- in order to pursue a balance between the needs for continuity and renewal in the management, it would be necessary to ensure a balanced combination of different lengths of service in office - in addition to age brackets - within the Board of Statutory Auditors;
- the Auditors must, in their entirety, be competent in the sector in which the TXT group operates, or rather with reference to the software business and IT services or in their similar, pertinent and adjoining sectors;
- the Statutory Auditors should be represented by figures with a professional and/or academic and/or managerial profile such as to achieve a series of skills and experience which are diverse and complementary. Specifically, at least one of the Statutory Auditors and at least one of the Alternate Auditors must be enrolled in the register of chartered accountants and have exercised official accounts audit activities. The additional professional requisites envisage that the Statutory Auditors who are not in possession of the requisite described above must have gained overall experience of at least three years with regard to the following: a) management or control activities or executive duties care of joint-stock companies; and/or b) university lecturing or professional activities with regard to legal, economic, financial and technical-scientific subjects pertaining to TXT's activities;



- the Chairman must be an individual with such a standing as to ensure a suitable co-ordination of the work of the Board of Statutory Auditors with the activities carried out by other parties involved for various purposes in the governance of the internal control and risk management system, for the purpose of maximising the efficiency of the latter and reducing the duplication of activities. The Chairman also has the task of creating spirit of cohesion within the Board of Statutory Auditors so as to ensure an efficient accomplishment of the supervisory functions assigned to this body, at the same time representing, on a par with the other Auditors, a guarantee for all the Shareholders.

With regard to the methods of implementation of the diversity policy, the TXT's By-Laws do not envisage the possibility that the Board of Directors presents a list of candidates at the time of renewal of the Board of Statutory Auditors, since the Company deems it inappropriate that the management body can appoint the parties required to oversee its work.

Therefore, the Policy exclusively intends to guide the candidatures formulated by the Shareholders at the time of renewal of the entire Board of Statutory Auditors or integration of the related composition, ensuring a suitable consideration of the benefits which may derive from a harmonious composition of said Board, aligned with the various diversity criteria indicated above.

The Board of Statutory Auditors in office was appointed before the adoption of the diversity Policy, but the current composition fully satisfies the objectives established by said policy for the various types of diversity.

During the 2018 financial year, the Board of Statutory Auditors held 5 meetings, with an average duration of 2 hours and 45 minutes. Five meetings have been scheduled for 2019, the first of which was held on 13 February 2019.

The Board of Statutory Auditors assessed the independence of its members (Criterion 8.C.1.). In performing the above-mentioned assessments, the Board considered compatible and significant the criteria provided for by the Code concerning Directors' independence (Criterion 8.C.1.).

The Board of Directors made it possible for Statutory Auditors to participate, subsequent to their appointment and during their term of office, in the most appropriate manner, in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, the principles of proper risk management, as well as the relevant regulatory framework of reference (Criterion 2.C.2.). Application of this principle is fulfilled through discussions and in-depth meetings with management.

Remuneration of the Statutory Auditors is commensurate with the required commitment, the relevance of the role held and the size and sector characteristics of the company (Criterion 8.C.4.).

According to corporate policies, in the event that an auditor who, on his own behalf or on behalf of third parties, has an interest in a specific corporate transaction, he or she shall promptly and exhaustively report to the other auditors and to the Chairman about the nature, terms, origin and scope of his/her interest (Criterion 8.C.5.).

The Board of Statutory Auditors oversaw the independence of external auditors, verifying both the respect of the relevant regulations and the nature and entity of services other than audit provided to the Issuer and its subsidiaries by the external auditors and the entities belonging to its network.

While performing its activities, the Board of Statutory Auditors coordinated with the internal audit function and the Risks and Internal Controls Committee (Criteria 8.C.6. and 8.C.7.), meeting with the internal audit unit and regularly attending the committee meetings.

## **15. RELATIONSHIP WITH SHAREHOLDERS**

The Company endeavours to develop a constructive dialogue with institutional investors, shareholders and the public in general, deeming it an important goal since its listing. To the end of maintaining such relationship, in compliance with regulations governing disclosure of corporate documents and figures, TXT manages this service internally.

Furthermore, communications are provided to shareholders through the Company's website ([www.txtgroup.com](http://www.txtgroup.com)), where income and financial information (i.e. annual, half-yearly and quarterly reports), price sensitive and other press releases issued by the Company in the last 5 years are available, along with the list of corporate events and meetings on the Group's operational, financial and corporate development.

The Chief Financial Officer Paolo Matarazzo was appointed as Investor Relations Manager. Considering the relatively limited size of TXT and the characteristics of its shareholding structure, a specific corporate structure was not deemed necessary (Criterion 9.C.1.).

During 2018, the Company took part in the "Star Conference" event organised by Borsa Italiana in Milan, on 27 March 2018, as well as in London on 23 October 2018. The company also organised a presentation for investors and analysts during the Shareholders' Meeting held on 19 April 2018, as well as various meetings with investors in Milan, Paris, London and Frankfurt.

The Chairman of the Board of Directors as at 31 December 2018 has powers of communication with regard to rules and regulations and in the interests of the Company, shareholders, employees and customers, carefully assessing the subject matter and content of external communications and communications to the market. The content of communications is the responsibility of the Chairman with the support of the Group CEO and the CFO and in consultation with the Board of Directors for particularly sensitive matters. In order to provide regular updates on the Company, an email-based communication channel is operational ([txtinvestor@txtgroup.com](mailto:txtinvestor@txtgroup.com)). Everyone can sign up for this service in order to receive, in addition to press releases, specific communications to Investors and Shareholders.

## **16. SHAREHOLDERS' MEETINGS (Article 123-bis, paragraph 2, letter c), of the Consolidated Law on Finance)**

The duly constituted Shareholders' Meeting represents all the shareholders. The resolutions it approves in compliance with the law and the By-Laws bind all the shareholders, including those who

are absent or disagree. Shareholders' Meetings are usually held at the Borsa Italiana headquarters, but they may also be held at the Company's registered office or elsewhere in Italy.

The one share one vote principle applies.

The Shareholders' Meeting is convened by public notice published in a national newspaper and on the Company's website within the deadlines and by the means provided for by the law; the notice indicates the date, time and place of the meeting and the agenda. The Shareholders' Meeting cannot pass resolutions on issues which are not on the agenda. As an exception to Article 135-*undecies*, paragraph 1 of the Consolidated Law on Finance (Italian Legislative Decree No. 58/1998), the Company has not selected a representative appointed to receive from the shareholders the proxies and voting indications. The Ordinary Shareholders' Meeting held to approve the financial statements shall be convened by the Board within 120 days from the end of the relevant reporting period.

The right to participate in the Shareholders' Meeting is held by those entitled with voting rights at the record date, i.e. 7 trading days before the date fixed for the Shareholders' Meeting and who have provided the Company with the related communication made by an authorised intermediary. Shareholders holding shares only subsequent to the record date shall not have the right to take part in and vote at the Shareholders' Meeting. No voting procedures by post or electronic means are allowed.

Each shareholder entitled to participate can be represented during the Shareholder's Meeting by means of a written proxy. The relevant form is available on the Company's website ([www.txt.com](http://www.txt.com), Investor Relations, Corporate Governance, Shareholders' Meeting document section). The proxy may be sent electronically to [deleghetxt@txtgroup.com](mailto:deleghetxt@txtgroup.com). The early notification of proxies does still require the person entrusted with it to submit a true copy and certify the identity of the delegating person, in order to take part in the Shareholders' Meeting.

Shareholders who, even jointly, represent at least 1/40 of the share capital with voting rights may ask for integrations on the agenda, indicating the issues in the request. The latter must be sent within 15 days of the publication of the notice, to the registered office of the Company and submitted to the Chairman of the Board of Directors with due certification of the shareholding requirements. In addition to this request, a report on the topic must be deposited in a timely manner at the registered office, so that it can be made available to the other Shareholders at least 10 days before the Shareholders' Meeting on first call. This integration is not allowed on topics on which the Shareholders' Meeting must vote, as per the law, upon proposal of the directors, or which are based on a project or report prepared by them.

Shareholders entitled to participate in the Shareholders' Meeting may submit questions on the agenda even before the Shareholders' Meeting, by sending a registered letter to the Company's registered office or by email to [infofinance@txtgroup.com](mailto:infofinance@txtgroup.com). Questions that are received prior to the Shareholders' Meeting shall be answered at the latest during the meeting itself. The Company reserves the right to give a single answer should there be numerous questions on the same topic. The request must include the necessary certification issued by the intermediaries proving the shareholders' voting right or the communication approving participation in the Shareholders' Meeting and the voting rights.

The Shareholders' Meeting is regularly attended by the Board of Directors and Board of Statutory Auditors.

The Ordinary Shareholders' Meeting votes on annual financial statements, net profit allocation, the appointment of the Board of Directors' members and their remuneration, the appointment of Standing and Alternate Auditors and the Board of Statutory Auditors' Chairman and on their remuneration. The ordinary Shareholders' Meeting also votes on the appointment of the External Auditors, establishing the relevant fees, and on approval of the regulations of the Shareholders' Meeting as well as on any other issue pursuant to the law.

The Extraordinary Shareholders' Meeting votes on issues involving changes in the Company's By-Laws, the appointment and powers of receivers in case of liquidation as well as on any other issues pursuant to the law.

Both the first and subsequent dates of convening shall be indicated in the Shareholders' Meeting notice, pursuant to law, unless the Board of Directors opts for the single-call system instead of the traditional one allowing multiple calls; in this case, the Board of Directors shall explain the choice in the notice.

The recommendation included in the Corporate Governance Code considering the Shareholders' Meetings as an opportunity for developing a constructive dialogue between the Board of Directors and shareholders has been carefully analysed and fully shared by the Company. All directors remaining in office, the newly appointed directors and all the standing auditors attended the Shareholders' Meeting of 18 April 2018. During the course of the Meeting, the Board of Directors, through the Chairman and CEO, reported on the activities carried out and planned, providing shareholders with adequate information in order to make informed decisions pertaining to the Shareholders' Meeting, as well as the documentation prepared with regard to the individual topics on the agenda. In order to encourage maximum attendance by shareholders, it has become common practice over the last few years to convene the Shareholders' Meeting at La Triennale di Milano or at the Borsa Italiana headquarters in Milan and, subsequently, to organise a presentation meeting for shareholders and investors (Criterion 9.C.3.).

The Shareholders' Meeting held on 7 April 2001 approved a specific set of rules to ensure that the Company's Ordinary and Extraordinary Shareholders' Meetings are effectively held, while guaranteeing the right of each shareholder to ask for clarifications on the agenda, speak and put forward proposals.

The Board reported to the Shareholders' Meeting on the activities performed and scheduled, and arranged to provide shareholders with adequate disclosure on the necessary issues so that they can take informed decisions pertaining to the Shareholders' Meeting (Comment to Article 9 of the Code).

At 31 December 2018, the Company's market capitalisation was €95.3 million, compared to €113.5 million at 31 December 2017.

On 16 March 2018, TXT was informed that the entire majority equity investment in TXT e-solutions S.p.A., owned by E-business Consulting S.A. and equal to 25.62% of the share capital, had been transferred to Laserline S.p.A. based on a transfer agreement. Laserline S.p.A. is a company in which Enrico Magni directly and indirectly holds a 100% stake. The company has not been informed of any significant changes in the shareholding structure. In this respect, it was not deemed necessary

to submit to the Shareholders' Meeting amendments to the By-Laws on the percentages established for exercising shares and the measures aimed at protecting minorities and in said case report on the results of said amendments (Criterion 9.C.4.).

During 2018, only one ordinary Shareholders' Meeting was convened.

The Shareholders' Meeting of 18 April 2018 appointed a member of the Board of Directors further to co-option, approved the 2017 Financial Statements, the dividend distribution, the remuneration report, the emoluments for the directors, the renewal of the treasury share purchase plan, and the appointment of a new director.

In reference to Article 7 of the Corporate Governance Code relating to the remuneration of directors and managers with strategic responsibilities, the Shareholders' Meeting of 18 April 2018 approved the remuneration policy document prepared by the Remuneration Committee and the Board of Directors.

## **17. OTHER CORPORATE GOVERNANCE ISSUES (Article 123-bis, paragraph 2, letter a) of the Consolidated Law on Finance)**

No other corporate governance issues have been implemented in addition to those previously mentioned.

## **18. CHANGES AFTER THE END OF THE REPORTING PERIOD**

There were no changes in the Company's corporate governance after the end of the reporting period.

## **19. CONSIDERATIONS ON THE LETTER DATED 21 DECEMBER 2018 FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE**

The recommendations formulated in the letter from the Chairman of the Corporate Governance Committee dated 21 December 2018 were forwarded to all the directors and auditors and were discussed during the Board Meeting on 7 March 2019 at the same time as the discussion of the results of the self-assessment process.

With regard to Recommendation 1 on the information provided before board meetings, the Board established the notice period deemed suitable for financial information (3 days), a deadline which in 2018 was observed in full. At the time of self-assessment of the Board, areas of improvement were highlighted with regard to disclosure to be provided before board meeting, in particular on non-financial aspects which require analysis, co-ordination between directors and advance preparatory activities with respect to the moment of discussion within the Board. The confidentiality requirements

have always been guaranteed without being a critical aspect in the process for the improvement of the suitability and promptness of the information flows.

With regard to Recommendation 2 on the independence criteria, the Board assessed how the independent directors qualify in complete compliance with the criteria defined by the Code, without particular exceptions.

With regard to Recommendation 3 on the board review activities, the Board believes that it provides a suitable description of its self-assessment process in this annual Report (Chapter 4.3) and that its self-assessment process is sufficiently detailed, open to comments and suggestions and transparent in the preliminary phases and the methods of execution.

With regard to Recommendation 4 on the essential aspects of the remuneration of the executive directors, the Board believes that the approach of the medium/long-term objectives for its executive directors is appropriately safeguarded and in line with the creation of value for all the shareholders in relation to the significant investments held: Enrico Magni, Group CEO (25.6% of the share capital), Alvisè Braga Illa, Chairman (14.0%), Marco Guida, CEO of the Aerospace, Aviation & Automotive Division (1.5%) and Paolo Matarazzo, CFO (0.7%). During 2018, there were no variable long-term incentives for the executive directors, but the Board intends to propose a new Stock Option plan during the next shareholders' meeting on 18 April 2019.

TABLE 1: Information on the shareholding structure

<b>Dichiarante</b>	<b>Azionista diretto</b>	<b>N° azioni detenute</b>	<b>Quota % su capitale ordinario</b>	<b>Quota % su capitale votante</b>
Enrico Magni (tramite Laserline SpA)	NO	3.332.011	25,62	28,61
Alvise Braga Illa	SI	1.822.954	14,02	15,65
Kabouter Management LLC	SI	1.135.062	8,73	9,75
Azione in portafoglio (con diritto di voto sospeso )	SI	1.359.717	10,45	-
Mercato	SI	5.356.506	41,18	45,99
<b>Totale azioni</b>		<b>13.006.250</b>	<b>100,00</b>	<b>100,00</b>

TABLE 2: Composition of the Board of Directors and Committees

Consiglio di amministrazione													Comitato Controllo e Rischi		Comitato Remunerazioni	
Carica	Nominativo	Anno di nascita	Data di prima nomina	In carica dal	In carica fino a	Lista	Esec.	Non esc.	Indip. da codice	Indip. da TUF	Nr. altri incarichi (1)	Partecipazione (3)	Qualifica	Partecipazione (3)	Qualifica	Partecipazione (3)
Presidente	Alvise Braga Illa	1939	03.07.1989	01.01.2018	31.12.2018	Maggioranza	x				-	13/13				
Amm. Del.	Enrico Magni	1956	18.04.2018	18.04.2018	31.12.2018	-	x				-	11/11				
Amm. Del.	Marco Edoardo Guida	1961	23.04.2008	01.01.2018	31.12.2018	Maggioranza	x				-	13/13				
Amm.	Paolo Matarazzo	1966	23.04.2008	01.01.2018	31.12.2018	Maggioranza	x				-	13/13				
Amm.	Stefania Saviolo	1965	17.04.2014	01.01.2018	31.12.2018	Maggioranza		x	x	x	-	13/13	x	7/7	Presid.	4/4
Amm.	Fabienne Dejean Schwalbe	1964	05.05.2015	01.01.2018	31.12.2018	Maggioranza		x	x	x	-	13/13	Presid.	7/7	x	4/4
Amm.	Valentina Cogliati	1981	18.04.2018	18.04.2018	31.12.2018	-		x	x	x	-	10/11	x	6/6		
<b>AMMINISTRATORI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO</b>																
Amm.	Teresa Cristiana Naddeo	1958	10.05.2012	01.01.2018	18.04.2018	Minoranza		x	x	x	2,00	1/2	Presid.	1/1	x	1/1
Amm.	Andrea Lanciani (2)	1965	03.08.2017	01.01.2018	31.12.2018	Minoranza		x			-	2/2	x	1/1	x	1/1
N. riunioni svolte durante l'esercizio 2018:				CDA: 13	CCR: 7	CR: 4										
<b>Quorum richiesto per la presentazione delle liste da parte delle minoranze per l'elezione di uno o più membri (ex art. 147-ter TUF): 4,5%</b>																

(1) In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani.

Detti incarichi sono indicati per esteso nella Relazione sulla corporate governance.

Informativa completa in merito a tutte le cariche ricoperte è allegata alla Relazione del Collegio Sindacale al Bilancio.

(2) Amministratore co-optato dal Consiglio in data 3.8.2017.

(3) In questa colonna è indicata la partecipazione degli amministratori alle riunioni rispettivamente del C.d.A. e dei comitati (n. di presenze/n. di riunioni svolte durante l'effettivo periodo di carica del soggetto interessato).

(4) Il Comitato Parti Correlate composto da Fabienne Dejean Schwalbe - Presidente e Stefania Saviolo si è riunito il 9.5.2018, 21.6.2018, 25.7.2018, 19.9.2018, 9.10.2018 con la presenza di tutti membri.



TABLE 3: Composition of the Board of Statutory Auditors

Carica	Nominativo	Anno di nascita	Data di prima nomina	In carica dal	In carica fino a	Lista	Indip. da codice	Partecipazione (3)	Nr. altri incarichi (1)
Presidente	Mario Basilico	1960	21.04.2017	01.01.2018	31.12.2018	Minoranza	x	5/5	-
Effettivo	Giampaolo Vianello	1970	21.04.2017	01.01.2018	31.12.2018	Maggioranza	x	5/5	-
Effettivo	Luisa Cameretti	1965	17.04.2014	01.01.2018	31.12.2018	Maggioranza	x	5/5	-
Supplente	Pietro Antonio Grignani	1964	29.04.2002	01.01.2018	31.12.2018	Maggioranza			
Supplente	Laura Grimi	1975	17.04.2014	01.01.2018	31.12.2018	Maggioranza			
Supplente	Massimiliano Tonarini	1968	21.04.2017	01.01.2018	31.12.2018	Minoranza			
SINDACI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO									
	-								
N. riunioni svolte durante l'esercizio: 5									
Quorum richiesto per la presentazione di liste da parte delle minoranze per l'elezione di uno o più membri (ex art. 148 TUF): 2%									

(1) In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani. Detti incarichi sono indicati per esteso nella Relazione sulla corporate governance. Informativa completa in merito a tutte le cariche ricoperte è allegata alla Relazione del Collegio Sindacale al Bilancio.

(2) In questa colonna è indicata la partecipazione dei Sindaci alle riunioni del Collegio Sindacale (n. di presenze/n. di riunioni svolte nell'esercizio).

