

Corporate Governance Committee

**CORPORATE GOVERNANCE
CODE**



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Main Principle and Temporary Regime

- I. Adoption of and compliance with this Corporate Governance Code (the “Code”) is voluntary.
- II. Each article of the Code is divided into principles, criteria and comments. The criteria set out the recommended conduct typically necessary in order to reach the objectives set out in the principles. Comments, on the other hand, pursue two goals: i) clarification, also through examples, of the relevant principles and criteria; ii) description of additional positive conduct, intended as possible desirable methods to pursue the objectives set out in the principles and criteria.
- III. The Company shall complete corporate governance report and proprietary shareholdings (“Corporate Governance Report”) annually. It shall contain accurate, concise, and easily understandable information on the manner in which each single recommendation contained in the principles and criteria has been effectively implemented during the period covered by the report. If the Company has not implemented, in whole or in part, one or more recommendations, it shall supply adequate information with regard to the reasons for the omitted or partial application. In the event that principles and criteria relate to optional conduct, a description of the line of conduct followed is required, though it is not necessary to provide the reasons for the choices made.
- IV. In case of either laws or regulations that are inconsistent with certain recommendations of this Code, no information is required on the omitted or partial implementation of such recommendations.

Article 1 – Role of the Board of Directors

Principles

1.P.1. The Company shall be governed by a Board of Directors that meets at regular intervals, adopts an organization and strategies that enable it to perform its functions in an effective manner.

1.P.2. The directors act and make decisions with full knowledge of the facts and autonomously pursuing and placing priority on the objective of creating value for the shareholders over a medium-long term period.

Criteria

1.C.1. The Board of Directors shall:

- a) examine and approve the strategic, operational and financial plans of the Company
- define the risk profile, both as to nature and level of risks, in a manner consistent with the Company's strategic objectives;
- monitor and oversee the implementation of Corporate Strategies of the Company;
- evaluate the adequacy of the organizational, administrative and accounting structure of the Company in particular with regard to the internal control system and risk management;
- specify the frequency, in any case no less than once every three months, with which the delegated bodies must report to the Board on the activities performed in the exercise of the powers delegated to them;
- evaluate the general performance of the company, paying particular attention to the information received from the delegated bodies, if any and periodically comparing the results achieved with those planned;
- perform at least annually an evaluation of the performance of the Board of Directors and its committees, as well as their size and composition, taking into account the professional competence, experience (including managerial experience) gender of its members and number of years as director;
- provide information in the Corporate Governance Report in (1) its composition, indicating for each member the relevant role held within the Board of Directors (including by way of example, chairman or chief executive officer, as defined by article 2), the main professional characteristics as well as the duration of his/her office since the first appointment; (2) the number and average duration of meetings of the Board and of the Executive Committee, if any, held during the fiscal year, as well as the related percentage of attendance of each director;
- in order to ensure the correct handling of corporate information, adopt, upon proposal of the President or the chairman of the Board of Directors, internal procedures for the internal handling and disclosure to third parties of information concerning the Company, having special regard to price sensitive information.

1.C.2. The directors' approval shall be necessary for the following:

- Making and changing rules, regulations and policies for the management of the Company's business and its officers, provided the same are not inconsistent with the Company's By-Laws;
- Purchasing or otherwise acquiring for the Corporation rights and privileges, which the Corporation is authorized to acquire at such prices and on such terms and conditions and for such consideration as it shall from time to time see fit;
- Paying for any property or rights acquired by the Company or to discharge obligations of the Company either wholly or partly in money or in stock, bonds, debentures or other securities;
- Borrowing money for the Company, or creating, making or issuing mortgages, bonds, deeds of trust and negotiable instruments or securities secured by mortgage or pledge of property belonging to the Corporation;
- Creating positions or offices as needs of the Company's business may require;
- Delegating delegable powers in the course of the current business of the Company;

- Opening or closing offices, branches, and the like; and
- Such other acts considered significant to the business of the Company as to warrant approval or ratification by the Company's Board of Directors.

1.C.3. The directors shall accept the directorship when they deem that they can devote the necessary time to the diligent performance of their duties, also taking into account the commitment relating to their own work and professional activity, the number of offices held as director or statutory auditor in other companies listed on regulated markets (including foreign markets) in financial companies, banks, insurance companies or companies of a considerably large size. The Board shall record, on the basis of the information received from the directors, on a yearly basis, the offices of director or statutory auditor held by the directors in the abovementioned companies and include them in the Corporate Governance Report;

1.C.4. In the shareholders' or Board of Directors' meetings, when dealing with organizational needs, authorizations, on a general or preventive basis, derogations from the rules prohibiting competition, then the Board of Directors shall evaluate each such issue, reporting, at the next shareholders' meeting, the critical ones if any. To this end, each director shall inform the Board, upon accepting his/her appointment, of any activities exercised in competition or in conflict with the Company and of any effective modifications that ensue. He/she must likewise abstain from participating in any matter that creates or might create a conflict between his/her interests and that of the Company's.

1.C.5. The Chairman of the Board of Directors shall ensure that the documentation relating to the agenda of the Board are made available to directors and statutory auditors in a timely manner prior to the Board meeting. The Board of Directors shall provide information in the Corporate Governance Report on the promptness and completeness of the pre-meeting information providing details, inter alia, on the prior notice usually deemed adequate for the supply of documents and specifying whether such prior notice has been usually observed.

1.C.6. The Chairman of the Board of Directors, also upon request of one or more directors, may request to the President that certain executives of the Company, in charge of the pertinent management areas related to the Board agenda, attend the meetings of the Board, in order to provide appropriate supplemental information on the items on the agenda.

Comment

The Board of Directors has the primary responsibility for determining and pursuing the strategic objectives of the Company. The Chairman is responsible for promoting the constant performance of such duty.

The decisions of each director are autonomous; to the extent he/she makes his/her choice with free judgment, doing so in the interest of the Company and the generality of the shareholders. Therefore, even when management choices have been evaluated, addressed or otherwise influenced in advance, within the limits and in compliance with the applicable provisions of law, by those exercising management and coordination activities, or by subjects participating in a syndication agreement, each director shall pass resolutions in autonomy, adopting resolutions which may, reasonably lead primarily to the creation of value for the generality of the shareholders in the medium-long term.

The Board is required to delegate powers in such a way that the Board does not appear to be divested of its prerogatives.

The Board of Directors is also required to carry out a self-assessment, mainly on the size, composition and functioning of both itself and its committees.

In carrying out such an assessment, it is required to verify that the various members (executive, non executive, independent) and the professional and managerial competences, including international experience, are adequately represented, taking into account also the benefits that could stem from the presence of different gender, age and seniority.

The Board is likewise expected to adopt internal procedures for handling, safely and confidentially, information relating to them and to the Company. Such a procedure shall also be aimed at preventing that disclosure of such information occurs in an untimely manner or selectively (i.e. anticipated only to certain persons, such as shareholders, journalists or analysts) or in an incomplete or inadequate manner. The members are most definitely prohibited from using these information to their own advantage and/or at the expense of the Company's interests. Besides being tantamount to a crime, such use is inimical to the Company's interests – that which he/she is obliged to protect.

In carrying out their duties, the directors shall review the information received from the delegated bodies, ask the same for any clarifications, elaborations or supplements that are deemed necessary or appropriate for a complete and correct evaluation of the facts submitted to the review of the Board.



The Chairman of the Board of Directors shall endeavor to ensure that the necessary time is allowed for an effective discussion of the items on the agenda during the meetings, and shall promote contributions from the directors; furthermore, he/she shall ensure, also through the help of the Secretary of the Board, pre-meeting information is supplied in a timely and accurate manner, provided that all the measures for ensuring confidentiality of the information and data so supplied are adopted. If the documents supplied are voluminous and complex, they can be accompanied by a summary setting out the most significant areas in order to effectively resolve upon items on the agenda, provided that such a summary shall not be deemed to replace in any manner the complete documentation supplied to directors.

In order to ensure effective holding of Board meetings, the President shall ensure that executives in charge of the pertinent management areas related to the Board agenda are available to attend such meetings, upon request.

Article 2 – Composition of the Board of Directors

Principles

2.P.1. The Board of Directors shall be made up of executive and non-executive directors, who would be adequately competent and professional.

2.P.2. Non-executive directors shall bring their specific expertise to Board discussions and contribute to the adoption of fully informed decisions paying particular care to the areas where conflicts of interest may exist.

2.P.3. The number, competence, authority and time availability of non-executive directors shall be such as to ensure that their judgment may have a significant impact on the taking of Board's decisions.

2.P.4. It is appropriate to avoid the concentration of corporate offices in one single individual.

2.P.5. Where the Board of Directors has delegated management powers to the Chairman, it shall disclose adequate information in the Corporate Governance Report on the reasons for such organizational choice.

Criteria

2.C.1. The following are qualified executive directors:

- the managing director/President of the Company and other officers of the Company who are granted with individual management powers or who play significant roles in the definition of the business strategies;
- the directors vested with management duties within the Company;
- the directors who are members of the executive committee of the Company, when no President is appointed or holding the position, or even if the President is present, elected and qualified when the participation in the executive committee, taking into account the frequency of the meetings and the scope of the relevant resolutions, entails, as a matter of fact, the systematic involvement of its members in the day-to-day management of the Company.

The granting of deputy powers or powers in cases of urgency to directors, who are not provided with management powers is not enough, per se, to cause them to be identified as executive directors, provided however, that such powers are not actually exercised with considerable frequency.

2.C.2. The directors shall know the duties and responsibilities relating to their office. The Chairman of the Board of Directors shall use his best efforts for causing the directors and the statutory auditors, after the election and during their mandate, to participate in initiatives aimed at providing them with an adequate knowledge of the business sector in which the Company runs its activity, of the corporate dynamics and the relevant evolutions, as well as the relevant regulatory framework.

2.C.3. The lead independent director:

- Represents a reference and coordination point for the requests and contributions of non-executive directors and, in particular, those who are independent pursuant to Article 3 below;
- Cooperates with the Chairman of the Board of Directors in order to guarantee that directors receive timely and complete information.

Comment

The shareholders, when preparing the lists and subsequently appointing directors, shall evaluate, also in light of the opinion expressed by the Board on such an item, the professional characteristics, the experience, including managerial competencies, and the gender of the candidates, in relation to the size of the Company, the complexity and specificity of the business sector in which the Company operates, as well as the size of the Board of Directors.

The non-executive directors enrich the Board's discussion with competencies formed outside the company, having a general strategic character or a specific technical one. Such competencies permit to analyze the different matters under discussion from different standpoints and, therefore, contribute to nourish the dialectics that is the distinctive precondition for a meditated informed corporate decision.



The contribution of non-executive directors appears to be useful on such subject matters in which the interests of executive directors and those of the shareholders may not coincide, such as the remuneration of the executive directors and in relation to the internal control and risk management systems.

With particular reference to the efficiency of the committees set up within the Board of Directors, Company's shareholders may consider the need to ensure management continuity through a diversification of the expiry of all or part of the Board members, provided that this does not jeopardize the different shareholders' rights.

Within the Board of Directors, the figure of the Chairman, to whom law and practice entrust duties of organization of the Board's works and to work in liaison with and between executive and non-executive directors, is of fundamental importance.

The international best practice recommends to avoid the concentration of offices in one single individual without adequate counterbalances; in particular, the separation is often recommended of the roles of Chairman and Chief Executive Officer, the latter meant as a director who, by virtue of the delegations of powers received and the concrete exercise of these, is the main responsible officer for the management of the Company issuer (CEO). The separation of the abovementioned roles may strengthen the characteristics of impartiality and balance that are required from the Chairman of the Board of Directors.

Article 3 – Independent Directors

Principles

3.P.1. An adequate number of non-executive directors shall be independent, in the sense that they do not maintain, directly or indirectly or on behalf of third parties, nor have recently maintained any business relationships with the Company or persons linked to it, of such a significance as to influence their autonomous judgment.

3.P.2. The directors' independence shall be assessed by the Board of Directors, after the appointment and, subsequently, on a yearly basis.

Criteria

3.C.1. The Board of Directors shall evaluate the independence of its non-executive members having regard more to the contents than to the form and keeping in mind that a director usually does not appear independent in the following events, to be considered merely as an example and not limited to:

- If he/she controls, directly or indirectly, the Company also through subsidiaries, trustees or third parties, or is able to exercise over the Company dominant influence, or participates in a shareholders' agreement through which one or more persons can exercise a control or dominant influence over the Company;
- If he/she is, or has been in the preceding three fiscal years, a significant representative of the Company or of a company or entity controlling the Company or able to exercise over the same a considerable influence, also jointly with others through a shareholders agreement;
- If he/she has, or had in the preceding fiscal year, a significant (e.g. through subsidiaries or companies of which he is a significant representative, or in the capacity as partner of a professional firm or of a consulting company) a significant commercial, financial or professional relationship:
 - o With the Company, one of its subsidiaries. If any, or any of its significant representatives;
 - o With a subject who, also jointly with others through a shareholders' agreement, controls the Company, or in case of a company or an entity – with the relevant significant representatives;
 - o or is, has been in the preceding three fiscal years, an employee of the abovementioned subjects;
- If he/she receives, or has received in the preceding three fiscal years, from the Company or its Holding Company, a significant additional remuneration (compared to the "fixed" remuneration of non-executive director of the issuer) also in the form of participation in incentive plans linked to the company's performance, including stock option plans;
- If he/she was a director of the Company for more than nine years in the last twelve years;
- If he/she is vested with the executive director office in another company in which an executive director of the Company holds the office of director;
- If he/she is shareholder or quotaholder or director of a legal entity belonging to the same network as the company appointed for the auditing of the Company;
- If he/she is a close relative of a person who is in any of the positions listed in the above paragraphs.

3.C.2. For the purpose of the above, the Chairman of the entity, the Chairman of the Board of Directors, the executive directors and key management personnel of the Company shall be considered as "significant representatives".

3.C.3. The number and competencies of independent directors shall be adequate in relation to the size of the Board and the activity performed by the Company.

Independent directors shall not less than two in number. They shall, among others, review material/significant Related Party Transactions to determine whether they are in the best interests of the company and its shareholders.

3.C.4. After the appointment of a director who qualifies himself/herself as independent and subsequently, upon the occurrence of circumstances affecting the independence requirement and in any case at least once a year, the Board of Directors shall

evaluate, on the basis of the information provided by the same director or available to the Company, those relations which could be or appear to be such as to jeopardize the autonomy of judgment of such director. The Board of Directors shall make proper disclosure on its findings.

In the documents mentioned above, the Board of Directors shall:

- Disclose whether they adopted certain criteria for assessing the independence which are different from the one recommended by the Code, also with reference to individual directors, and if so, specifying the reasons;
- Describe quantitative and/or qualitative criteria used, if any, in assessing the relevance of relationships under evaluation.

3.C.5. The independent directors shall meet at least once a year without the presence of the other directors.

Comment

Independence of judgment is required of all directors, executive and non-executive alike. Directors who are conscious of the duties and rights associated with their position always bring independent judgment to their work.

In particular, non-executive directors may provide an independent unbiased judgment on the proposed resolutions, since they are not directly involved in the operational running of the company.

Since the Company's ownership is concentrated and identified, the problem of aligning the interests of the executive directors with those of the shareholders continues to exist, but there emerges the need for some directors to be independent also from the controlling shareholders, or shareholders which are, in any case, able to exercise a dominant influence.

The qualification of a non-executive director as independent directors does not express a judgment of value, but it rather indicates an actually existing situation: the absence, as stated above, of any relation with the Company, or with subjects linked to it, such as to actually affect, due to their importance, to be evaluated in relation to the individual subject, the independence of judgment and the unbiased assessment of the management activity.

The criteria set out some of the most common elements that are symptomatic of absence of independence. Such elements are set out by way of example and are not binding on the Board of Directors, which may adopt, for the purpose of its evaluations, additional or different, in whole or in part, criteria from those mentioned above.

The non-exhaustive or mandatory character of the events set out in the criteria implies the need to review also additional circumstances, not expressly contemplated therein, which might appear, however, likely to negatively affect the independence of directors.

The appointment of an independent director of the Company in companies controlling it or controlled by it does not cause the loss of independence requirement. In such cases, it may be considered, amongst other things, whether the holding of several offices could determine a total remuneration such as to hinder the independence of the director. However, it is appropriate to assess on a case by case basis the extent of any additional fee received by reason of each of such offices.

Significant representatives of a company controlling the Company or controlled by it (if it is strategically significant) or under common control could be considered not independent irrespective of the amount of the relevant remunerations, by reason of the duties entrusted to them. Also in this event, the Board of Directors is required to make a substantial evaluation: therefore, by way of example, a director who is vested with the office of non-executive chairman of the controlling company or of a subsidiary, could be considered independent in the Company, if he had received such appointment because he is "*super partes*"; vice-versa, a director could appear to be non-independent, if he actually plays, also in absence of formal delegations of powers, a guidance role in the definition of strategies of the Company or if he is the chairman of a shareholders' agreement through which one or more entities can control or have a significant influence on the Company.

In any event, the Board of Directors should evaluate such relationships on the basis of their significance, both in absolute terms and with reference to the economic-financial situation of the party concerned. Any agreement in favor of the director (or subjects linked to the directors) containing any financial or contractual conditions not aligned with those of the public, is to be considered material.

Those relations which, even though they are not significant from an economic standpoint, are particularly material for the reputation of the director concerned or relate to important transactions of the Company should also be taken into consideration.

From a subjective standpoint, in addition to the relations directly entertained with significant representatives, the relations maintained with subjects however traceable to such representatives, such as, by way of example, companies controlled by them, may also be taken into consideration.

The Committee also believes that, in certain circumstances, the existence of relations other than economic ones, may be material. For example, political activities performed on a continuing basis by a director could be taken into consideration for the purpose of evaluation his/her independence. However, the so-called courtesy relationships are not relevant.

Also, for the definition of the relations of a “family” nature, it is appropriate to rely on the prudent evaluation of the Board of Directors, which might consider as not relevant, taking into account the actual circumstances, the existence of a close family or in-law relationship. Parents, children, the spouse who is not legally separated, the companion living together and family members living together with a person, who could not be considered as an independent director, should be judged theoretically as being not independent.

The presence in the Board of Directors of directors who may be qualified as “independent” is the most suitable solution for guaranteeing the interests of all the shareholders, both majority and minority ones. In this respect, in the correct exercise of the rights of appointment of directors, it is possible that the independent directors are proposed by the same controlling shareholders. On the other side, the circumstance that a director is expressed by one or more minority shareholders does not imply, *per se*, a judgment of independence of such director. These characteristics must be verified in concrete terms, according to the principles and criteria outlined above.

Article 4 – Internal Committees of the Board of Directors

Principle

4.P.1. The Board of Directors may establish among its members one or more committees with proposing and consultative functions according to the terms stated below.

Criteria

4.C.1. The establishment and functioning of the committees governed by the Code shall meet the following criteria:

- a) Committees shall be made up of at least two members. The committees' activities shall be coordinated by a chairman;
- b) The duties of individual committees are provided by the resolution by which they are established and may be supplemented or amended by a subsequent resolution of the Board of Directors;
- c) Minutes shall be drafted of the meetings of each committee;
- d) In the performance of their duties, the committees have the right to access the necessary company's information and functions, according to the procedures established by the Board of Directors, as well as to avail themselves of external advisers. The Company shall make available to the committees adequate financial resources for the performance of their duties, within the limits of the budget approved by the Board;
- e) Persons who are not members of the committee, including other Board members, may participate in the meetings of each committee upon invitation of the same, with reference to individual items on the agenda;
- f) The Board of Directors shall provide adequate information, in the Corporate Governance Report, on the establishment and composition of committees, the contents of the mandate entrusted to them, as well as, on the basis of the indications provided for by each committee, the activity actually performed during the fiscal year, the number of meetings held, their average duration and the relevant percentage of participation of each member.

Comment

The Board of Directors shall perform its duties collectively:

An organizational procedure that may increase the efficiency and effectiveness of its works is represented by the establishment among its members of specific committees having consultative and proposing functions. Such committees may be useful in carrying out a preliminary role – which is represented by the formulation of proposals, recommendations and opinions – for the purpose of enabling the Board to adopt its decision with a better knowledge of the facts.

Such role may be particularly effective in relation to the handling of matters which appear to be delicate.

The powers of individual committees, in particular those having for their object the direct access to the necessary company's information and departments for the performance of their duties, are determined by the Board in the framework of the mandate conferred on them.

Article 5 – Election of Directors

Principle

5.P.1. The Board of Directors shall establish procedures for proposing candidates to the position of directors. At the minimum, elections shall be conducted during a stockholders' meeting where a quorum is present. The stockholders will vote for the candidates they prefer. The seven (7) candidates attaining the most votes shall be considered elected directors. Such election shall be conducted after ensuring that the qualifications, as enumerated below are met by each of the candidates.

Criteria

5.C.1 The Committee to propose candidate for appointment to the position of director shall be vested with the following functions:

- a) To express opinions to the Board of Directors regarding its size and composition and express recommendations with regard to the professional skills necessary within the Board as well with regard to other related thereto;
- b) To submit to the Board of Directors candidates for directors who shall fill in vacancies.

5.C.2. Candidates for members of the Board of Directors must, at the minimum, possess the following qualifications:

- a) He must be a stockholder of the Company in good standing; and
- b) He must have relevant experience in the administration of a Financial Business.

More importantly, it must be emphasized that according to applicable laws, rules and regulations, majority of the members of the Board must be residents of the Philippines;

5.C.3. The Board of Directors shall evaluate whether to adopt a plan for the succession of executive directors. In the event of adoption of such a plan, the Company shall disclose it in the Corporate Governance Report. The review on the preparation of the abovementioned plan shall be carried out by the nomination committee, if any, or by another committee established within the Board of Directors in charge of this task.

Comment

The procedure to be followed should ensure transparency and a balanced composition of the Board. In particular, it is appropriate that the slates of candidates for directors' offices mention their eligibility, if any, to be qualified as such. The Board of Directors remains as the competent body for evaluating the independence of its own members.

Should the issuer adopt a succession plan, the Corporate Governance Report shall disclose whether specific mechanisms are set forth in the succession plan in case of early replacement, the corporate bodies and the persons that are in charge of the preparation of the plan, as well as the manners and timing of its review.

Article 6 – Remuneration of Directors

Principles

6.P.1. The remuneration of directors and key management personnel shall be established in a sufficient amount to attract, retain and motivate people with the professional skills necessary to successfully manage the Company.

6.P.2. The remuneration of executive directors and key management personnel shall be defined in such a way as to align their interests with pursuing the priority objectives of the creation of value for the shareholders in a medium-long term timeframe. With regard to directors with managerial powers or performing, also *de-facto*, functions related to business management, as well as with regard to key management personnel, a significant part of the remuneration shall be linked to achieving specific performance objectives, possibly including non-economic objectives, identified in advance and determined consistently with the guidelines contained in the policy described in principle 6.P.4.

The remuneration of non-executive directors shall be appropriate to the commitment required from each of them, also taking into account their possible participation in one or more committees. Said remuneration shall include *per diems*.

6.P.3. The Board of Directors may establish among its member a remuneration committee. At least one committee member shall have an adequate knowledge and experience in finance or remuneration policies, to be assessed by the Board of Directors at the time of his/her appointment. In the absence of a remuneration committee, the Board *en banc* shall all as such.

6.P.4. The Board of Directors shall, upon proposal of the remuneration committee, establish a policy for the remuneration of directors and key management personnel.

Criteria

6.C.1. The policy for the remuneration of executive directors and other directors covering particular offices shall define guidelines on the issues and consistently with the criteria detailed below:

- a) The non-variable component and the variable component are properly balanced according to the Company's strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business carried out;
- b) Upper limits for variable components shall be established;
- c) The non-variable component shall be sufficient to reward the directors when the variable component was not delivered because of the failure to achieve the performance objectives specified by the Board of Directors;
- d) The performance objectives – i.e. the economic performance and any other specific objectives to which the payment of variable components (including the objectives for the share-based compensation plans) is linked – shall be predetermined, measurable and linked to the creation of value for the shareholders in the medium-long term;
- e) The payment of a significant portion of the variable component of the remuneration shall be deferred for an appropriate period of time; the amount of that portion and the length of that deferral shall be consistent with the characteristics of the Company's business and associated risk profile;
- f) Termination payments shall not exceed a fixed amount or fixed number of years of annual remuneration. Termination payments shall not be paid if the termination is due to inadequate performance.

6.C.2. In preparing plans for share-based remuneration, the Board of Directors shall ensure that:

- a) Shares, options and all other rights granted to directors to buy shares or to be remunerated on the basis of share price movements shall have an average vesting period of at least three (3) years;
 - The vesting referred to in paragraph (a) shall be subject to predetermined and measurable performance criteria;
 - Directors shall retain a certain number of shares granted or purchased through the exercise of the rights referred to in paragraph a), until the end of their mandate.

6.C.3. The criteria 6.C.1. and 6.C.2. shall apply, *mutatis mutandis*, also to the definition – by the bodies entrusted with that task – of the remuneration of key management personnel.

Any incentive plan for the person in charge of internal audit and for the person responsible for the preparation of the corporate financial documents shall be consistent with their role.

6.C.4. The remuneration of non-executive directors shall not be – other than for an insignificant portion – linked to the economic results achieved by the Company. Non-executive directors shall not be beneficiaries of share-based compensation plans, unless it is so decided by the annual shareholders' meeting which shall also give the relevant reasons. Their compensation may also be subjected to the approval of the Company's shareholders.

6.C.5. The remuneration committee, if constituted, shall:

- Periodically evaluate the adequacy, overall consistency and actual application of the policy for the remuneration of directors and key management personnel, also on the basis of the information provided by the managing directors; it shall formulate proposals to the Board of Directors in that regard.
- Submit proposals or issue opinions to the Board of Directors for the remuneration of executive directors and other directors who cover particular offices as well as for the identification of performance objectives related to the variable component of that remuneration. It shall monitor the implementation of decisions adopted by the Board of Directors and verify, in particular, the actual achievement of performance objectives.

6.C.6. No director shall participate in meetings of the remuneration committee in which proposals are formulated to the Board of Directors relating to his/her remuneration.

6.C.7. When using the services of an external consultant in order to obtain information on market standards for remuneration policies, the remuneration committee shall previously verify that the consultant concerned is not in a position which might compromise its independence.

Comment

The remuneration policy establishes the guidelines according to which the remunerations shall be determined by the Board of Directors with reference to the remuneration of executive directors and other directors covering particular offices, and by the managing directors with reference to the key management personnel.

The structure of the remuneration of executive directors and key management personnel should promote the sustainability of the Company in the medium-long term and ensure that the remuneration is based on results actually delivered. To this end, it is recommended that the variable components are linked to predetermined and measurable criteria. The remuneration policy may not determine in detail the formula expressing the correlation between variable component and objectives. It is sufficient that the policy indicates the elements (in particular the economic variables) to which the variable components are linked and their methods of measurement.

The remuneration policy establishes limits on the variable component, which need not necessarily be construed as caps expressed in absolute values.

A reference to the average remuneration for similar offices may be useful to define the level of remuneration. However, it should also be consistent with adequate parameters linked to the performance of the Company.

The share-based compensation plans, if properly structured, can also be a suitable way to align the interests of executive directors and key management personnel with those of the shareholders. The Company shall adopt certain measures aimed at discouraging their beneficiaries from seeking to increase the short term market value of the shares, thus undermining the creation of value in the medium-long term.

In particular, a predetermined portion of the shares granted or purchased should remain locked-in until the end of the mandate. This constraint, however should not apply to the shares already held by the beneficiaries of the plan. With reference to the key management personnel that have an open-ended contract with the company, the plan should identify an appropriate expiration date of the constraint, for example three (3) years from the date of the grant or purchase of shares.

The complexity of the remuneration issues require that the related decisions of the Board of Directors shall be supported by the preliminary activity and proposals of a remuneration committee.

The remuneration committee, in carrying out its tasks, shall ensure appropriate links with all relevant functional and operational departments of the Company.

In the performance of its duties, the remuneration committee should use the services of external consultants that are experts on compensation policies. Such consultants shall not simultaneously provide the human resources department, the directors or the key management personnel, with significant services which might compromise their independence.

The remuneration committee shall report to the shareholders on the exercise of its functions. For this purpose, the Chairman or another committee member should be present at the annual shareholders' meeting.

Article 7 – Internal Control and Risk Management System

Principles

7.P.1. The Company shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks. Such a system shall be integral to the organizational and corporate governance framework adopted by the Company and shall take into consideration the reference model and the best practices that are applied both at national and international levels.

7.P.2. An effective internal control and risk management system contributes to the management of the Company in a manner consistent with the objectives defined by the Board of Directors, promoting an informed decision-making process. It contributes to ensuring the safeguarding of corporate assets, the efficiency and effectiveness of management procedures, the reliability of financial information and the compliance with laws and regulations, including the by-laws and internal procedures.

7.P.3. The internal control and risk management system involve each of the following corporate bodies depending on their related responsibilities:

- a) the Board of Directors, that shall provide strategic guidance and evaluation on the overall adequacy of the system, identifying within the Board:
 - (i) one or more directors to be charged with the task of establishing and maintaining an effective internal control and risk management system (hereinafter, the “director in charge of the internal control and risk management system”), and
 - (ii) a control and risk committee to be charged with the task of supporting, on the basis of an adequate control process, the evaluations and decisions to be made by the Board of Directors in relation to the internal control and risk management system, as well as to the approval of the periodical financial reports;
- b) the person in charge of internal audit, entrusted with the task to verify the functioning and adequacy of the internal control and risk management system;
- c) the other roles and business functions having specific tasks with regard to internal control and risk management, organized depending on the company’s size, complexity and risk profile;
- d) the Board of statutory auditors, also as “audit committee”, which is responsible for oversight of the internal control and risk management system.

7.P.4. At least one member of the committee is required to have an adequate experience in the area of accounting and finance or risk management, to be assessed by the Board of Directors at the time of appointment.

Criteria

7.C.1. The Board of Directors, with the opinion of the control and risk committee, shall;

- a) define the guidelines of the internal control and risk management system, so that the main risks concerning the Company are correctly identified and adequately measure, managed and monitored, determining, moreover, the level of compatibility of such risks with the management of the Company in a manner consistent with its strategic objectives;
- b) evaluate, at least on an annual basis, the adequacy of the internal control and risk management system taking into account the characteristics of the Company and its risk profile, as well as its effectiveness;
- c) describe, in the Corporate Governance Report, the main features of the internal control and risk management system, expressing the evaluation on its adequacy;

The Board of Directors shall, upon proposal of the director in charge of the internal control and risk management system, subject to the favorable opinion of the control and risk management committee;

- appoint and revoke the appointment of the person in charge of the internal audit function;

- ensure that such a person is provided with the adequate resources for the fulfillment of his/her responsibilities;
- define the relevant remuneration consistently with the Company's policies.

7.C.2. The control and risk committee, when assisting the Board of Directors shall:

- a) evaluate together with the person responsible for the preparation of the corporate financial documents, after hearing the external auditors the correct application of the accounting principles, as well as their consistency for the purpose of the preparation of the consolidated financial statements, if any;
- b) express opinions on specific aspects relating to the identification of the main risks for the company;
- c) review the periodic reports of the internal audit function concerning the assessment of the internal control and risk management system, as well as the other reports of the internal audit function that are particularly significant;
- d) monitor the independence, adequacy, efficiency and effectiveness of the internal audit function;
- e) report to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system.

7.C.3. The director in charge of the internal control and risk management system shall:

- a) identify the main business risks, taking into account the characteristics of the activities carried out by the Company and submit them periodically for the review of the Board of Directors;
- b) implement the guidelines defined by the Board of Directors, taking care of the planning, realization and management of the internal control and risk system, constantly monitoring its adequacy and effectiveness;
- c) adjust such system to the dynamics of the operating conditions and the legislative and regulatory framework;
- d) request internal audit function to carry out reviews of specific operational areas and on the compliance of business operation with rules and internal procedures, giving simultaneous notice to the chairman of the Board of Directors and the chairman of control and risk committee;
- e) promptly report to the control and risk committee (or to the Board of Directors) issues and problems that resulted from his/her activity or of which he/she became aware of in order for the committee (or the Board) to take the appropriate actions.

7.C.5. The person in charge of internal audit shall:

- a) Verify both on a continuous basis and in relation to special needs, in conformity with international professional standards, the adequacy and effective functioning of the internal control and risk management system, through an audit plan, to be approved by the Board of Directors. Such a plan shall be based on a structured analysis and ranking of the main risks;
- b) not be responsible for any operation area and be subordinated to the Board of Directors;
- c) Have direct access to all useful information for the performance of its duties;
- d) Draft periodic reports containing adequate information on its own activity, and on the Company's risk management process, as well as about the compliance with the management plans defined for risk mitigation. Such periodic reports contain an evaluation on the adequacy of the internal control and risk management system;
- e) Prepare timely report on particularly significant events;
- f) Submit the reports indicated above to the control and risk committee and the Board of Directors, as well as to the director in charge of the internal control and risk management system.

7.C.6. The internal audit function may be entrusted, as a whole or by business segments, to a person external to the Company,

provided, however, that it is endowed with adequate professionalism, independence and organization. The adoption of such organizational choices, with a satisfactory explanation of the relevant reasons, shall be disclosed to the shareholders and the market in the Corporate Governance Report.

Comment

A control system must be “integrated” in order to be efficient. This implies that its constituents are to be coordinated and interdependent among themselves and that the system as a whole is, at its own turn integrated, in the general organizational, administrative and accounting structure of the Company.

The Board of Directors, being a body entrusted with strategic supervision duties, is in charge of defining the guidelines of the control system, consistently with the Company’s risk profile set out by the Board of Directors.

In addition, the Board of Directors is responsible for evaluating the adequacy of controls system. Such an evaluation is to be carried out periodically, even though the occurrence of unexpected events over the course of the company’s life may require special in depth analysis, aimed at assessing the effectiveness of controls with regard to specific situations.

The Board of Directors usually needs to carry out a preliminary verification activity, when performing such duties as well as when examining annual or half-year reports. For the purpose of streamlining the governance structures, the Board of Directors may decide to carry out directly such verification activity, without setting up any special committee, where such a choice is consistent with the Company business strategies.

The Board of Directors may identify among its members a director to be in charge of establishing and maintaining an internal control and risk management system.

As far as the main business functions involved in the control system are concerned, a central position is ascribed to the internal audit function, that is charged with the “third level” control. The internal audit function should be absolutely independent, being provided with an autonomous power to drive the preparation of the audit plan and to put into operation single actions; the independency of the function is also linked to the rules set forth in matter of appointment, revocation and remuneration of the relevant person in charge of this office. Powers assigned to the Board of Directors in this subject-matter set out the existence of an effective hierarchical relationship in respect of the person in charge of the internal audit office. However, the abovementioned proposals shall be subject to the favorable opinion of the control and risk committee (or alternatively, as for proposals concerning remuneration, of the remuneration committee), if there is one.

Special attention must be paid to information flows coming from the internal audit office. The outcome of the reviews made should be reported, generally simultaneously, to the chairmen of Board of Directors and control and risk committee, as well as to the director in charge of the internal control and risk management system, who shall not be allowed to receive information in advance on the activities carried out.

Business departments competent for carrying out “second level” controls, charged with the monitoring and management of typical business risks, including operational risk, financial risk, market risk, (non) compliance risk, etc., are a different level.

Save for the person responsible for the preparation of the corporate financial documents, who is responsible, pursuant to the law, for arranging adequate administrative and accounting procedures for the preparation of financial information documents, no general rules are provided on risk management applicable to the Company.

The Company should determine the most suitable organization in order to reach an effective protection from risks, taking into account the features of the company’s business. This way, the monitoring and management of risks may be assigned to managers (or departments) that are not exclusively devoted to this responsibility. Second level control departments are intended to enact a structured process of risk analysis and are subject to a general review by internal audit function.

Article 8 – Relations with the Shareholders

Principles

9.P.1. The Board of Directors shall take initiatives aimed at promoting the broadest participation possible of the shareholders in the shareholders' meeting and making easier the exercise of the shareholders' rights.

9.P.2. The Board of Directors shall endeavor to develop a continuing dialogue with the shareholders based on the understanding of their reciprocal roles.

Criteria

9.C.1. All the directors usually participate in the shareholders' meetings. The shareholders' meetings are also an opportunity for disclosing to the shareholders information concerning the Company. In particular, the Board of Directors shall report in the shareholders' meeting the activity performed and planned and shall use its best efforts for ensuring that the shareholder receive adequate information about the necessary elements for them to adopt in an informed manner, the resolutions they are requested to make.

9.C.3. The Board of Directors should submit for approval of the shareholders the rules of procedure to be followed in order to permit an orderly and effective conduct of the shareholders' meetings of the Company, emphasizing on the right of each shareholder to express his or her opinion on the matters under discussion.

9.C.4. In the event of significant changes in the market capitalization of the company's shares or in the composition of its shareholders, the Board of Directors shall assess whether proposals should be submitted to the shareholders' meeting to amend by-laws in respect of the majorities required for exercising actions and rights provided for the protection of minority interests.

Comment

The Company should establish a continuing dialogue with the generality of the shareholders, and in particular, with institutional investors.

In such context, the shareholders' meeting remains an important opportunity of confrontation between shareholders and directors.

Accordingly, the Board of Directors must exert its best efforts to avoid formalities and processes that make the attendance at the shareholders' meeting and the exercise of the voting rights by the shareholders burdensome and hard. When choosing the place, date and time for shareholders' meetings, as well as when drafting the relevant agenda, directors shall bear in mind the objective of making it as easy as possible for shareholders to attend and vote.

The good working of shareholders' meeting can be sometimes threatened by the behavior of certain "rufflers" who substantially limit the effective attendance of the other shareholders. The Company must then adopt measures aimed at encouraging the effective attendance of the shareholders.

The company shareholders' meeting regulation can specify, among other things, the maximum duration of individual interventions, their order, the procedures for answering to the questions eventually submitted before the meeting, as well as the terms within which such questions have to be submitted, the voting procedures, the interventions by directors and members of the Board of statutory auditors, as well as the powers of the chairman, *inter alia* with regard to settling or preventing conflicts in meetings.

Since the shareholders' meeting gives the chance for shareholders and directors to make a dialogue, the latter shall attend, especially those who, in consideration of the duties with which they are entrusted, may provide significant contribution to the discussion in the shareholders' meeting.

The previous timely disclosure to the public by shareholders controlling the Company (or, if there are not, shareholders who have a significant influence on it) of any proposal to be submitted during the shareholders' meeting in relation to topics on which directors did not formulate proposal, is a good practice. By way of example, shareholders' position in matter of the number of Board of Directors members, as well as duration and remuneration of such a body, could be disclosed to the public at the filing of candidates' slate.