COMMITTEE FOR THE CORPORATE GOVERNANCE

OF LISTED COMPANIES

REPORT

CODE OF CONDUCT

TRANSLATION

(for reference purposes only)

Towards the end of 1998, I thought that a series of favourable conditions was existing in Italy for convening a Committee with the aim of drawing up a Report on Corporate Governance of listed companies and drafting a Code of Conduct.

The market capitalisation of the Stock Exchange had risen close to 50% of GDP, putting the capital market back at the centre of the financial stage, the primary and secondary legislation introduced by the Consolidated Law on Financial Intermediation and the related implementing regulations had brought conditions in this field into line with those prevailing in the other countries with highly developed financial systems, the "Comitato Piazza Finanziaria" *was making good progress, the internationalisation of the Stock Exchange was a* fait accompli, *with some 40% of turnover originating abroad, the industrial and financial system had assimilated the European and global scope of competition, the institutionalisation of savings had become of major importance.*

In this increasingly international and institutional environment, success in competing for access to the financial markets and minimising the cost of capital also depends on the guarantees of efficiency and reliability that the system of Corporate Governance can provide.

The preparation of a Code of Conduct in the field of Corporate Governance is therefore to be seen as offering Italian listed companies an instrument able to further reduce the cost of recourse to the capital market.

Naturally, such a Code is also a means of fostering the proper control of business risks and dealing adequately with potential conflicts of interest, always liable to interfere in relations between directors and shareholders and between majority and minority interests. Nonetheless, since the economic and legal framework of the Italian economy and, in particular, of listed companies was and is satisfactory, the latter can interpret the Code as an opportunity to develop further and not just as a set of additional procedures to comply with.

Counting on this favourable climate, early in January 1999 I invited outstanding representatives of the Italian economical and financial Community to participate in a Committee that would undertake, with the necessary competence and authority, the task of drafting of a Report and a Code of Conduct for Corporate Governance.

The response was decidedly positive and demonstrated the willingness of the Italian business community to tackle issues of importance for its success.

The presence of institutional investors on the Committee confirmed the desire to ensure the indications of the Code fully matched the objectives of the principal counterparties.

The Committee's aim was thus to draw up a Code aligned with international practice but heedful of specifically Italian features, based on freedom of choice in the organisation of Corporate Governance and coupled with the correct definition of responsibilities in a regime of perfect transparency.

The Code, which is voluntary and not mandatory, has a high degree of built-in flexibility, allowing it to be adapted to companies' different choices, and lends itself to revision in the future, to take account of the experience gained and changes in Italian law and business practices.

If the boards of directors of listed companies will appreciate the benefits that can stem from wholehearted adoption of the Code, if they will not see it merely as a procedure to be fulfilled with the minimum of effort, if institutional and individual investors will take account of companies' Corporate Governance choices in their investment decisions and if the climate of opinion will evolve favourably in this respect, we may believe to have contributed significantly to the success of Italian companies and the Italian market.

Self-regulation is not a firmly established tradition in the Italian legal system or in the Italian economy.

I believe the preparation of this Code is also important because it is a significant occasion on which firms, the Italian Exchange and investors have shown organisational cohesion in pursuit of an objective of general interest, which has been attained, moreover, in a short time.

Successful application of the Code will thus be an important signal of the success of self-regulation, which it will then be possible to use to advantage in other fields.

The Country's political and institutional authorities will also have a role to play, albeit indirectly, in fostering and respecting the self-regulatory efforts of a market made up of mature and responsible players.

I wish to thank all the members of the Committee for their extraordinary commitment to the common task, despite each having many other important duties and responsibilities, and to express my gratitude to the Experts for their contribution of ideas and analysis.

The enthusiasm and competence of Claudio Grego, Head of the Legal and Regulatory Affairs Department of Borsa Italiana S.p.A., were fundamental in enabling the Committee to complete soon and well its works.

Stefano Preda

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until 28th June 1999

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REPORT

1. INTRODUCTION

The success of Italy's economy depends, among many others elements, also on the efficiency and ability to grow of Italian companies, whose access to domestic and international financial markets is one of the indispensable prerequisites for such growth.

It is clear that, in the context of an international and global financial market, firms now compete for their access to the capital market. How investors decide to allocate the resources they manage is influenced both by the general conditions of each country and by the characteristics of individual firms; they not only assess economic factors but also the reliability and accountability of the legal system and the management of individual companies.

Even though the Italian financial market is already substantially international, with non-resident investors accounting for some 40% of trading, the aim of minimising the cost of capital for listed companies makes it essential to maintain and, if possible, increase the presence of both foreign investors and domestic investors.

The Consolidated Law on Financial Intermediation and the implementing regulations issued by Consob and the Bank of Italy have contributed decisively to enhancing the esteem of Italy's markets and companies and have laid the foundations for the specification of a model of Corporate Governance in line with those of the countries with the most highly developed financial systems.

In an increasingly competitive environment, Italian firms and the companies listed on Italian markets must continuously compare themselves with the models of corporate organisation developed in the most advanced economies in order to maintain and expand the role and importance they have acquired. In drawing up the Code of Conduct, the Committee has accordingly endeavoured to align the proposed system of Corporate Governance with international standards, while taking adequate account of specific national features, so as to allow the competitiveness and the image of Italian companies to be appreciated in a global financial context.

2. CORPORATE GOVERNANCE

Corporate Governance, in the sense of the set of rules according to which firms are managed and controlled, is the result of norms, traditions and patterns of behaviour developed by each economic and legal system and is certainly not based on a single model, that can be exported and imitated everywhere.

The issue of Corporate Governance has been the object of a debate in recent months between those who advocate a form of binding regulation and those who would leave

organisational choices, in which Corporate Governance is a major factor, to companies' discretion.

The Committee has come out in favour of self-regulation, but considered it essential for the maturation of listed companies in the field of Corporate Governance to be fostered by the drafting of this Code of Conduct with provisions reflecting the bylaw and board practices of those companies that in recent years have adopted advanced models of Corporate Governance.

The Committee is convinced that this Code of Corporate Governance, if it is taken as a guide to best practice by listed companies, can reassure the investor community as to the existence in listed companies of a clear and well defined organisational model with an appropriate division of responsibilities and powers and a proper balance between management and control.

3. REFERENCE CONTEXT

In preparing the Code, it was immediately clear that the work would be decisively conditioned by the existing system of company law, which in Italy's case differs in some respects from those of other continental European countries and even more markedly from those of the Anglo-Saxon countries.

The monistic structure of the board of directors, the obligation to have a board of auditors as a control body, the three-year limit to the duration of corporate bodies and the limited board presence of managers were factors the Committee had to take into account.

No less important was the analysis made of the ownership structure of listed companies, which showed relatively few companies in Italy with a broad shareholder base flanked by a large number with concentrated ownership.

4. AIMS OF THE CODE

The Committee has identified the maximisation of shareholder value as the primary objective of good Corporate Governance, considering that in the longer term the pursuit of this goal can give rise to a virtuous circle in terms of efficiency and company integrity with beneficial effects for other stakeholders — such as customers, creditors, consumers, suppliers, employees, local communities and the environment — whose interests are already protected in the Italian legal system.

The Committee surveyed the systems of Corporate Governance adopted by the companies listed on Italian Exchange with a detailed questionnaire to which they nearly all responded.

The findings showed that, even though the systems of Corporate Governance in force in these companies differed according to their size, ownership structure and sector of activity, they appeared to be valid: what was missing, however, was a set of standards embodying the best practice for companies to aim at.

Accordingly, the Committee proposes this Code as a model aligned with the principles of international best practice, suitably adapted to take account of the specific features found in Italy, in the belief that its wholehearted adoption by listed companies will increase their reliability with investors.

5. CONTENTS OF THE CODE

5.1 THE BOARD OF DIRECTORS

The Code contains a minimum set of recommendations that outline an organisational structure for companies of which the fundamental feature is the central position of the board of directors, charged with providing strategic and organisational guidance and verifying the existence of the controls needed to monitor companies' performance.

The board of directors fulfils its duties well when it is able to act with the necessary authority and effectiveness and when its composition ensures that its decisions are marked by the primacy of the company's interest and the maximisation of shareholder value.

The Code lists the activities the board of directors undertakes and the powers it exercises to achieve the foregoing objectives and notes that its guidance function requires regular and sufficiently frequent meetings, as well as knowledge of the facts and independence of judgement on the part of all members.

The importance of the responsibilities and tasks of directors led the Committee to call on them to make a conscientious self-assessment of their ability to devote sufficient care and attention to the duties of the office. The Committee did not, instead, deem it desirable to lay down quantitative guidelines in terms of number of directorships or the duration of appointments.

The balanced composition of the board, with the participation of executive directors and non-executive directors, of which some classifiable as "independent", guarantees the good governance of the company as the outcome of the confrontation and dialectic between management powers and those of strategic guidance and supervision, while

ensuring that the necessary attention is paid to the performance of the company and the prevention of conflicts of interest.

The board of directors is a unitary body. Even though decision-making powers in the running of the company are delegated to only some directors, the non-executive directors, whose number and authority should result in their carrying significant weight in board decisions, have a key role to play by contributing their expertise to the dialectical debate that is the essential prerequisite for pondered and informed collective decisions consistent with the interests of the company.

Independence of judgement 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 judgement in performing their work.

Finally, the Committee recommends, in line with international practice, that an appropriate number of "independent" directors should be elected to the boards of listed companies; the role of such directors is important not only in board discussions but also in board committees.

5.2 THE CHAIRMAN

In the model outlined in the Code the role of the chairman is crucial in ensuring compliance with the principles of Corporate Governance. It is the chairman, in fact, who is responsible for the working of the board, the distribution of the information needed to the directors to be able speak with knowledge of the facts, and the co-ordination of the board's activities.

The Committee has found that it is not infrequent in Italy for management powers to be delegated to the chairman, either alone or together with other managing directors. Accordingly, it does not recommend the separation of the two roles as a matter of principle. It does, however, recommend that listed companies should make the division of tasks and responsibilities among the various positions absolutely clear and disclose adequate information in this respect.

5.3 COMPANY INFORMATION

The price-sensitive and other information distributed to the board of directors must always be considered by the directors as confidential. The Committee accordingly recommended that boards should adopt a procedure for the communication of company documents and information to third parties.

5.4 BOARD COMMITTEES

5.4.1 THE NOMINATION COMMITTEE

The Committee recommends, with regard to proposals for election to the board of directors, that companies should comply with a transparent procedure, albeit with the maximum of flexibility.

Without prejudice to the responsibility of shareholders, especially those with a majority or controlling interest, for proposals, the Committee recommends that the personal traits and professional qualifications which, in the view of their proposers, render candidates eligible for election should be communicated sufficiently in advance. In this way all the shareholders will be able to cast their votes in an informed manner.

The Committee believes that some companies may consider it helpful to establish a committee to propose the appointments. However, the large proportion of companies with concentrated ownership, the legal requirement for appointments to the board of directors not to last more than three years and the bylaws providing for election lists in some companies with a broad shareholder base suggested that it would not be advisable to institutionalise such a committee.

5.4.2 THE REMUNERATION COMMITTEE

Directors' pay is a field where decisions must be taken in such a way that no director can influence the determination of his or her remuneration and which calls for adequate disclosure of information and transparency concerning fees and the manner of determining them. It is also important that remuneration packages should be able to attract and motivate persons with adequate experience and ability, not only for the board but also for top management positions.

The Committee therefore recommends the setting up of a remuneration committee, which really amounts to no more than institutionalising the practice adopted in Italian companies in conformity with the second paragraph of Article 2389 of the Civil Code.

The Committee considers that the need to align the interests of the directors with those of the shareholders means recommending at least partly variable systems of remuneration, linked to economic objectives.

5.4.3 INTERNAL CONTROL AND THE INTERNAL CONTROL COMMITTEE

The Committee recommends the setting up of an internal control system, which can be organised in different ways according to the situation of each company. It is the task of the directors so encharged to set up and ensure the adequacy and effectiveness of the

internal control system. A good control system, provided with adequate human and financial resources, increases the ability to identify, forestall and limit, as far as possible, financial and operational risks and fraud at the company's expense.

The Committee also recommends that all listed companies should establish an internal control committee charged with analysing and addressing the problems of importance for the control of the company's activities.

The main recommendations in this respect are: that the committee should be established formally, that it should be made up of an appropriate number of non-executive directors, that it should give advice and make proposals, that it should report regularly to the board of directors, and that it should assess the adequacy of the control system, the reports of the external auditors and the persons responsible for internal control and the offers and work programmes of auditing firms.

5.5 RELATIONS WITH SHAREHOLDERS

The Committee believes that it is in the interest of listed companies to establish a continuous dialogue with the generality of shareholders and, in particular, with institutional investors.

The Committee is of the view that this dialogue can be fostered by the establishment of an *ad hoc* corporate structure for this function, although, especially in smaller companies, it can be performed directly by members of the company's governing bodies.

The Committee deemed that the behaviour of institutional investors was beyond the scope of its remit but hopes that recognition by them of the importance of the rules of Corporate Governance contained in this Code may help to promote a more whole-hearted and widespread application of its principles by listed companies.

Shareholders' meetings remain a key element in the relations between shareholders and the board of directors. The Committee recommends that the participation of the shareholders in the meetings should be encouraged and facilitated and that, whenever possible, all the directors should attend. The Committee also recommends that companies should establish rules for shareholders' meetings in order to permit the orderly and effective conduct of business.

5.6 MEMBERS OF THE BOARD OF AUDITORS

Following the entry into force of the Consolidated Law on Financial Intermediation and the related reform of the board of auditors of listed companies, the Committee recommends that the members of this board should also be appointed by way of a transparent procedure and that adequate information on the candidates should be

distributed in advance. The Committee is convinced that the interests of the majority and minority shareholders must confront each other in the election of the governing bodies, whereas subsequently these bodies, and hence also the members of the board of auditors, must work exclusively in the interest of the company regardless of who proposed them.

6. APPLICATION OF THE CODE

The Code is an organisational and operational reference model and as such does not give rise to any legal obligations.

The Committee nonetheless hopes that the corporate organisation provided for in the Code, although not binding, will be the model to which listed companies will gradually refer to in taking decisions concerning their internal organisation and manner of operating; the provisions of the Code are notable for their flexibility, leave ample scope for their gradual adoption and subsequent improvement, and consider the differences between companies in terms of size and ownership structure.

The Committee has decided to invite Borsa Italiana S.p.A. to acknowledge the existence of the Code and to provide, for the companies with shares listed on the markets it manages, to report, through procedures agreed with the Committee, on their adoption of the corporate organisation provided for in the Code and to give the reasons for their not complying with some or any of them.

The Committee recognises that some smaller companies, especially if they are not part of a group, may have difficulty in adopting the entire Code in the short term and that other companies, such as those with a limited number of directors, may deem it desirable to leave the functions attributed to board committees to the board itself; the Committee nonetheless invites them to consider the advantages inherent in applying the entire Code.

The Committee firmly believes that the Code will be a powerful instrument for enhancing the esteem in the eyes of investors of all Italian companies, provided they appreciate and embrace it with conviction as a means of raising their standards of Corporate Governance and not just as an additional imposition to be complied with passively.

The board of directors of the listed companies shall decide whether or not comply with the corporate organisation provided for in the Code.

The board of directors, shall, in exercising its general powers of guidance, choose the most appropriate organisational solutions from among those the flexibility of the Code permits.

The guiding principle in applying the Code is, in fact, “freedom with accountability”, which in the Committee’s view is the one that allows companies to pursue their objectives while simultaneously ensuring the transparency of their choices.

The task of verifying the suitability of the choices made and the extent of the Code’s application is entrusted to the institutional *fora* for the confrontation between companies and the main actors interested in good Corporate Governance: it is therefore to be reserved to shareholders’ meetings and encounters with institutional investors.

The Committee also believes that the Code should be reviewed from time to time in order to keep it in line with legal and regulatory developments in Italy and abroad and the progressive internationalisation and globalisation of markets and Italy’s economic and social structures. To this end, the Committee will continue in existence during the first two years of the Code’s application to carry out a study for monitoring the level of adoption of the Code by the listed companies and to formulate and receive proposals for its revision.

CODE OF CONDUCT

Articles and Comments

1. ROLE OF THE BOARD OF DIRECTORS

1.1. Listed companies are governed by a board of directors that meets at regular intervals and that adopts an organisation and a modus operandi enabling it to guarantee effective and efficient performance of its functions.

The Committee believes that the primary responsibility of the board of directors of a listed company is to set the company's strategic objectives and to ensure they are achieved.

In this sense the board performs a leadership function that is implemented not only through the meetings of the board, to be held at regular intervals, but also through the effective commitment of each director in such meetings and in those of the committees of the board.

1.2. The board of directors shall:

a) examine and approve the company's strategic, operational and financial plans and the corporate structure of the group it may head;

b) delegate powers to the managing directors and to the executive committee and revoke them; it shall specify the limits to such delegated powers, the manner of exercising them and the frequency, as a general rule not less than once every three months, with which such bodies must report to the board on the activity performed in the exercise of the powers delegated to them;

c) determine, after examining the proposal of the special committee and consulting the board of auditors, the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, where the shareholders' meeting has not already done so, allocate the total amount to which the members of the board and of the executive committee are entitled;

d) supervise the general performance of the company, with special reference to situations of conflict of interest, paying particular attention to the information received from the executive committee (where established), the managing directors and the internal control committee and periodically comparing the results achieved with those planned;

e) examine and approve transactions having a significant impact on the company's profitability, assets and liabilities or financial position, with special reference to transactions involving related parties;

f) check the adequacy of the general organisational and administrative structure established by the managing directors for the company and the group;

g) report to the shareholders at shareholders' meetings.

As stated above, the board of directors' tasks include providing strategic and, regarding the group, organisational guidance.

The board is also the collective body responsible for verifying the existence of the controls needed to monitor the performance of the company.

In addition, the board has the authority to appoint one or more managing directors and an executive committee, requiring them, however, to provide adequate information on the exercise of the powers delegated to them.

The Committee believes that the board has the right and the interest to monitor that there is not a significant concentration of decision-making power in the bodies with delegated powers without an adequate system of controls.

In fact, while it is certainly necessary for companies to have a strong executive leadership endowed with adequate powers and able to exercise them to the full, it is equally necessary for the board of directors, collectively, to supervise the running of the business in a predetermined and agreed manner.

At all events, the Committee recommends that, in addition to matters reserved to the board by law or the bylaws, the powers delegated to managing directors should not cover the most important operations (including, in particular, those with related parties), the examination and approval of which remains the exclusive responsibility of the board.

As regards such operations, the Committee recommends that the information provided to the shareholders' meeting should be sufficiently detailed, so as to allow the advantages they offer the company to be understood.

1.3. Directors shall act and decide autonomously, having full knowledge of the facts, and pursue the objective of creating value for the shareholders. Directors shall accept their appointment to the board when they deem they can devote the necessary time to the diligent performance of their duties.

The Committee recommends that each director should perform his or her functions conscientiously and that board decisions should accordingly be taken by directors who have full knowledge of the facts they are called upon to discuss and approve.

The decisions of each director are autonomous to the extent that they are taken in the light of his or her unbiased assessment of the facts in the interest of the generality of shareholders. Accordingly, even when operational choices have already been assessed by the controlling

shareholders (individually or under a shareholders' agreement), each director is required to cast his or her vote autonomously, making choices that can reasonably be expected to maximise shareholder value.

The creation of value for the generality of shareholders is the primary objective the directors of listed companies seek to achieve. The emphasis placed on shareholder value, apart from reflecting the approach that is internationally prevalent, is in conformity with Italian law, which sees the interest of the shareholders as the reference parameter for the action of those who lead the company. For listed companies, moreover, promoting the value of the shares is also the indispensable premise for a profitable relationship with the financial market.

Independence of judgement is requirements of the decisions of all directors, executive and non-executive alike, regardless of whether the latter are "independent" within the meaning of Article 3 below.

The reference to the time to be devoted to the diligent performance of the duties of directors confirms the principle that all directors are individually required to make an appropriate commitment to the position, so that companies can benefit from their expertise. Each director is therefore responsible for assessing in advance his or her ability to play the role diligently and effectively.

1.4. Directors are required to know the duties and responsibilities associated with their position. Managing directors shall endeavour to inform the board of the main statutory and regulatory innovations concerning the company and the governing bodies.

The Committee believes that it is up to individual directors to know the duties and responsibilities associated with the position of director. Managing directors shall endeavour to ensure that all the directors are kept abreast of the main innovations in the legal framework within which the company operates, especially the legal provisions concerning the performance of the functions of director.

2. COMPOSITION OF THE BOARD OF DIRECTORS

2.1. The board of directors shall be made up of executive directors (i. e. the managing directors, including the chairman where he or she has delegated powers, and those directors who perform management functions within the company) and non-executive directors. The number and standing of the non-executive directors shall be such that their views can carry significant weight in taking board decisions.

2.2. Non-executive directors shall bring their specific expertise to board discussions and contribute to the taking of decisions that are consistent with the shareholders' interests.

In Italy non-executive directors normally outnumber executive directors. The Committee recommends that, in practice, each company should

determine the number, experience and personal traits of its non-executive directors in relation to its size, the complexity and specific nature of its sector of activity, and the total membership of the board.

The fact that decision-making powers in the running of the company are delegated to only some directors does not eliminate the importance of the board of directors really being able, in the performance of its strategic and supervisory duties, to express authoritative judgements that are the fruit of authentic discussion among professionally qualified persons.

The primary role of the non-executive component is to make a positive contribution to the performance of these duties.

Non-executive directors enrich board discussions with expertise acquired outside the company of a general strategic or specific technical nature. Such expertise allows matters under discussion to be analysed from different standpoints and thus helps to fuel the dialectical debate that is the distinctive prerequisite for pondered and conscious collective decisions.

The contribution of non-executive directors is also useful in matters where the interest of the executive directors and the more general interest of the shareholders might not coincide. In fact, the non-executive component of the board, because it is not involved in the running of the company, can assess the proposals and the behaviour of the executive directors with greater detachment.

3. INDEPENDENT DIRECTORS

An adequate number of non-executive directors shall be independent, in the sense that they:

a) do not entertain business relationships with the company, its subsidiaries, the executive directors or the shareholder or group of shareholders who controls the company of a significance able to influence their autonomous judgement;

b) do not own, directly or indirectly, a quantity of shares such that they may control the company nor participate in shareholders' agreements to control the company.

Independence of judgement 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 judgement to their work.

In particular, non-executive directors, since they are not directly involved in the running of the company, are qualified to bring an independent and unbiased judgement to the resolutions proposed by the managing directors.

The Committee recommends that, in line with international practice, a number of "independent" directors should be elected to the boards of listed companies that is adequate in relation to the total number of non-

executive directors and significant in terms of representativeness. The role of independent directors is important, not only in board discussions but also for their participation in the committees, dealt with later in the Code, established by the board of directors to address issues that are delicate and potential sources of conflicts of interest.

The Committee notes that the most delicate aspect in companies with a broad shareholder base consists in aligning the interests of the managing directors with those of the shareholders. In such companies, therefore, the predominant aspect is their independence from the managing directors.

By contrast, where the ownership is concentrated, or a controlling group of shareholders can be identified, the problem of aligning the interests of the managing directors with those of the shareholders continues to exist, but there emerges the need for some directors to be independent from the controlling shareholders too, so as to allow the board to verify that potential conflicts of interest between the interests of the company and those of the controlling shareholders are assessed with adequate independence of judgement

The Committee recognises, however, that this need may be attenuated where the company is controlled by a plurality of mutually independent persons, none of whom is in a position to exercise a dominant influence.

Classifying non-executive directors as independent does not imply any particular value, either positive or negative, but is simply the result of a fact: the absence, as the rule states, of business relationships with the managing directors of the company (especially for companies with a broad shareholder base) and with the controlling shareholders (especially for companies with a concentrated ownership) that would affect in relation with their importance (to be evaluated on a case by case basis) their independence of judgement and unbiased assessment of the work of the management.

Director's fees and a shareholding of a size that does not give control of the company in question do not nullify his or her independence.

The legal structure of Italian governing bodies means that it is possible for members of the executive committee to be considered non-executive and independent directors insofar as this committee is a collective body that does not attribute individual powers to its members.

Lastly, the Committee believes that the presence on the board of directors of members who can be considered "independent" is the best way to guarantee the composition of the interests of all the shareholders, majority and minority alike. Accordingly, in the correct exercise of the rights to elect directors, it is possible for "independent" directors to be proposed by the controlling or majority shareholders; independence is an objective quality that cannot be affected by the type of shareholder making the proposal.

4. THE CHAIRMAN OF THE BOARD OF DIRECTORS

4.1. The chairman shall call the meetings of the board and shall endeavour to ensure that the members of the board are provided reasonably in advance of the date of the meeting (except in cases of necessity and as a matter of urgency) with the documentation and information needed for the board to express an informed view on the matters it is required to examine and approve.

4.2. The chairman shall co-ordinate the activities of the board of directors and moderate its meetings.

4.3. Where, in order to promote the effective and efficient management of the company, the board has delegated powers to the chairman, it shall disclose adequate information in its annual report on the powers delegated following that organisational choice.

The Committee believes that the role of the chairman is fundamental in ensuring the effective working of the board and efficient Corporate Governance. The chairman is responsible for calling meetings, setting the agenda, arranging (in a manner agreed with the managing directors) for the distribution of adequate and timely information to the directors (especially the non-executive directors) and ensuring that all the directors can effectively make a knowledgeable and informed contribution to board discussions.

In cases of necessity and as a matter of urgency exceptions to the foregoing information requirement may arise.

The Committee considers that in some circumstances the nature of the matters to be discussed, the need for confidentiality (especially for companies whose activity involves the interests of third parties) and the rapidity with which the board must decide may impose limits on the information to be provided.

The Committee considers, in principle, that chairmen and the managing directors each have their own tasks, but notes that it is not infrequent in Italy for the same person to hold the two positions or for some management powers to be delegated to the chairman even where there are managing directors. Limited to the powers delegated to the chairman, he is also a managing director.

The Committee therefore believes that the board of directors, where it deems this to be desirable in order to achieve a more efficient running of the company, has the right to delegate management powers to the chairman alone or with others. In such case the board should include adequate information in its annual report on the duties and responsibilities of the chairman and the managing directors.

5. INFORMATION TO BE PROVIDED TO THE BOARD OF DIRECTORS

The executive committee - in the person of its chairman - and the managing directors shall periodically report to the board of directors on the activities performed in the exercise of their delegated powers.
The bodies with delegated powers shall also provide adequate information on transactions that are atypical, unusual or with related parties whose examination and approval are not reserved to the board of directors.
They shall provide the board of directors and the board of auditors with the same information.

The committee recommends that the exercise of the powers delegated to managing directors and the executive committee should be accompanied by the provision of adequate and regular information to the board, on an organised basis.

The interval between such reports depends on the importance of the delegated powers and the frequency with which they are exercised and may also vary with the sector in which the company operates and the size of the company.

The Committee recommends that the bodies with delegated powers should pay particular attention to (and provide specific information on) the most delicate matters, i.e. transactions that are atypical, unusual or with related parties.

Such transactions, which are certainly legitimate when undertaken in the interest of the company, must, however, either be approved by the board of directors as a whole, as in the case of those of particular significance referred to in Article 1.2, subparagraph e), or, when carried out on the basis of delegated powers or not of material significance, be reported adequately to all the members of the board.

Lastly, the Committee believes that, since the board of directors is required by law to inform the board of auditors, all the directors must possess at least as much information as is provided to the board of auditors.

6. CONFIDENTIAL INFORMATION

6.1. The managing directors shall take care of the handling of confidential information; to this end they shall propose to the board of directors the adoption of an internal procedure for the disclosure to third parties of information concerning the company, with special reference to price-sensitive information.

6.2. All the directors are required to treat the documents and information they acquire in the performance of their duties as confidential and to comply with the procedure for the disclosure to third parties of such documents and information.

Listed companies, in view of the importance of the disclosure of information, both for investors and for the regular formation of prices in the financial markets on which they are listed, must pay special attention to the diffusion of information to third parties, especially if it is price sensitive.

The Committee recommends, inter alia owing to the positive value of the correct disclosure of information to the market, that listed companies should adopt an internal procedure for the communication of such information designed to prevent its being communicated selectively (i.e. given early to certain persons, such as shareholders, journalists or analysts) or in an untimely, incomplete or inadequate manner. The managing directors are required to propose to the adoption of such a procedure to the board of directors and to take care of the handling of confidential information and the communication to the market of information concerning important facts.

The Committee believes it must underscore the absolutely confidential nature of the information directors acquire in the performance of their functions and call on them to comply with the procedure for communicating information to third parties.

7. APPOINTMENT OF DIRECTORS

7.1. Proposals for appointments to the position of director, accompanied by detailed information on the personal traits and professional qualifications of the candidates, shall be deposited at the company's registered office at least 10 days before the date fixed for the shareholders' meeting or at the time the election lists, if provided for, are deposited.

7.2. Where the board of directors has established a committee to propose candidates for appointment to the position of director, the majority of the members of such committee shall be non-executive directors.

The Committee recommends that the election of members of the board of directors should take place in accordance with a transparent procedure.

In general, proposals for the election of directors are put forward by the majority or controlling shareholders, who obviously make a preliminary selection of the candidates.

In the case of companies with a broad shareholder base, instead, candidates are also put forward, sometimes by means of election lists provided for in the bylaws, by minority or non-controlling shareholders.

In both cases it is in the interest of the generality of shareholders to know the personal traits and professional qualifications of candidates (as well as the positions they hold) sufficiently in advance for them to be able to cast their votes in an informed manner, especially in the case of institutional investors, which are often represented in shareholders' meetings by proxies.

The Committee believes that it is also possible for such characteristics to be assessed in the light of the positions that each candidate might be called upon to hold in the company (chairman, managing director, member of the executive committee, etc.).

The Committee has envisaged the possibility of listed companies establishing a nomination committee to propose candidates for election, especially where the board sees that it is difficult for shareholders to make proposals, as may be the case in listed companies with a broad shareholder base.

In such cases the Committee recommends the establishment of a nomination committee, but recognises that the function can be performed by the board of directors itself when it is small.

This committee, which can obviously receive proposals from shareholders as well as formulating its own, serves the primary purpose of rendering the selection procedure transparent. The majority of the members of the committee should be non-executive directors.

8. REMUNERATION OF DIRECTORS

8.1. The board of directors shall form a remuneration committee. The committee, the majority of whose members shall be non-executive directors, shall submit proposals to the board on the remuneration of the managing directors and of those directors who are appointed to particular positions and, on the indication of the managing directors, on the criteria for determining the remuneration of the company's top management. To this end the committee may employ external consultants at the company's expense.

The issue of the remuneration of managing directors and those entrusted with special duties can, in nearly all listed companies, be largely based on a practice similar to that which it is intended to institutionalise here. In fact, the preparation of a proposal for such remuneration is usually delegated to directors who are non-executive or in any case able to formulate proposals without incurring conflicts of interest.

The Committee therefore recommends the establishment of a remuneration committee consisting prevalently of non-executive directors, which does not involve any special problems under Italian law since, in conformity with the second paragraph of Article 2389 of the Civil Code, the committee's function is only to make proposals, so that that the power to establish the "remuneration of directors appointed to particular positions in accordance with the articles of association" remains with the board of directors.

The remuneration committee is also entrusted with the task of identifying and proposing to the board, on the basis of the indications provided by the managing directors, the adoption of criteria for the remuneration of the top management of the company able to attract and motivate persons with adequate ability and experience. The committee may avail itself of

consultants, who may be useful in providing the necessary information on market standards for remuneration systems.

Determining the politics and levels of the remuneration of top management obviously remains the task of the managing directors.

8.2. As a general rule, in determining the total remuneration payable to the managing directors, the board of directors shall provide for a part to be linked to the company's profitability and, possibly, to the achievement of specific objectives laid down in advance by the board of directors itself.

The Committee believes that the appropriate structuring of the total remuneration of managing directors is one of the main means of aligning their interests with those of the shareholders and that systems of variable remuneration linked to results, including stock options, makes it easier to motivate the entire top management and promote its loyalty.

However, it is for the board of directors to decide whether to make extensive use of such systems of remuneration and set the objectives for managing directors.

9. INTERNAL CONTROL

9.1. The managing directors shall ensure the effectiveness and adequacy of the internal control system; they shall define its procedures, appoint one or more persons to run it and provide them with appropriate resources.

9.2. The internal control system is charged with the task of checking effective compliance with the operational and administrative internal procedures adopted to guarantee a sound and efficient management and to identify, forestall and limit, as far as possible, financial and operational risks and fraud at the company's expense.

9.3. The persons appointed to run the internal control system shall not be placed hierarchically under a person responsible for operations and shall report on their activity to the directors delegated to the task and to the internal control committee (provided for in article 10 below) and the members of the board of auditors.

The Committee is aware that no control system can entirely prevent events leading to unexpected losses or unintentional misrepresentations of operational facts, but it believes that the establishment of an effective internal control system is a key aspect of the good governance of listed companies.

The internal control system can be organised in different ways, in accordance with to the situation of each company.

The managing directors appoint one or more persons to run the system, define the most suitable procedures to ensure its effectiveness and

adequacy, and give the persons appointed to run the system resources and powers allowing them to perform their task effectively.

In the light of the best practice found in listed companies and the supervisory rules applicable to some categories of financial intermediaries, the Committee recommends that the persons appointed to run the internal control system should be free from hierarchical ties with the persons subject to their control, in order to prevent interference with their independence of judgement.

The internal control system covers both financial risks and operational risks, including, therefore, those arising in connection with the effectiveness and efficiency of operations and compliance with laws and regulations.

The persons appointed to run the internal control system report to the managing directors to allow them to intervene promptly where necessary and to the internal control committee and the board of auditors to keep them informed of the results of their work.

10. INTERNAL CONTROL COMMITTEE

10.1. The board of directors shall establish an internal control committee, charged with the task of giving advice and making proposals and made up of an appropriate number of non-executive directors. The chairman of the board of auditors and the managing directors may participate in the committee's meetings.

10.2. In particular the internal control committee shall:

a) assess the adequacy of the internal control system;

b) assess the work programme prepared by the persons responsible for internal control and receive their periodic reports;

c) assess the proposals put forward by auditing firms to obtain the audit engagement, the work programme for carrying out the audit and the results thereof as set out in the auditors' report and their letter of suggestions;

d) report to the board of directors on its activity and the adequacy of the internal control system at least once every six months, at the time the annual and semi-annual accounts are approved;

e) perform the other duties entrusted to it by the board of directors, particularly as regards relations with the auditing firms.

The Committee recommends that the board of directors, in performing its supervisory duties, should establish an internal control committee charged with the task of analysing and addressing the problems of importance for the control of the company's activities.

This committee is the formally constituted body able to assess autonomously and independently from both the managing directors on issues concerning the safeguarding of the company's integrity and from the auditing firms on the results set out in the auditors' report and their letter of suggestions.

This explains the composition of the committee, as well as the provision made for the possible participation, at the meetings of the Committee, of the chairman of the board of auditors, as the representative of the control body provided for in the bylaws. The managing directors may also participate in the internal control committee since they are empowered to intervene in the matters examined and to identify adequate measures to tackle potentially critical situations.

The list of the committee's tasks is not exhaustive since the board of directors may decide, in the light of the company's nature and the particular types of risk incurred in its entrepreneurial activity (consider banks and insurance companies), to entrust other tasks to the committee.

11. RELATIONS WITH INSTITUTIONAL INVESTORS AND OTHER SHAREHOLDERS

The chairman of the board of directors and the managing directors shall, while complying with the procedure for the disclosure of documents and information concerning the company, shall actively endeavour to develop a dialogue with shareholders and institutional investors based on recognition of their reciprocal roles. They designate a person or, where appropriate, create a corporate structure to be responsible for this function.

The Committee believes that it is in the interest of listed companies to establish a continuous dialogue with the generality of shareholders and, in particular, with institutional investors.

In fact, correct, complete and continuous communication with shareholders is something that is appreciated by present and prospective investors.

In view of the special role and functional specialisation of institutional investors, the Committee recommends that companies identify the person responsible for relations with investors and that highly capitalised companies with a broad shareholder base establish a corporate structure devoted to this function and provided with adequate means and professional skills.

The Committee also recognises that, in smaller companies with a simpler organisation, the task of handling investor relations could be performed directly by appropriately identified members of the top management of the company.

The specification that the dialogue with institutional investors must be established in compliance with companies' communication procedures is intended as a reminder that it must not lead to the communication of important facts before they are communicated to the market.

The Committee deemed that the behaviour of institutional investors was beyond the scope of its remit. It nonetheless hopes that recognition by them of the importance of the rules of Corporate Governance contained in this Code may prove to be an important element in fostering a more convinced and widespread application of the Code's principles by listed companies.

12. SHAREHOLDERS' MEETINGS

12.1. The directors shall encourage and facilitate the broadest possible participation of shareholders in shareholders' meetings;

12.2. As a general rule, all the directors shall attend shareholders' meetings;

12.3. Shareholders' meetings shall also be an opportunity to provide shareholders with information on the company, while complying with the procedure concerning price-sensitive information.

The Committee believes that, even where the means of communication with shareholders, institutional investors and the market are widely diversified (including telematic systems), shareholders' meetings continue to provide an opportunity to establish a profitable dialogue between directors and shareholders. With reference to this dialogue it is again necessary to recall the duty of companies not to communicate price sensitive information to shareholders without simultaneously disclosing it to the market.

Accordingly, the Committee recommends that, in choosing the place, date and time for shareholders' meetings, directors should bear in mind the objective of making it as easy as possible for shareholders to attend and, since such meetings are an occasion for dialogue between shareholders and directors, that the latter should be present, especially those who, in view of the duties with which they are entrusted in the board of directors and/or the committees of the board, can make a useful contribution to the discussion in the meeting.

12.4. The board of directors shall propose for the shareholders' approval a set of rules to ensure the orderly and effective conduct of the company's ordinary and extraordinary shareholders' meetings, while guaranteeing the right of each shareholder to speak on the matters on the agenda.

The Committee recommends that companies should establish rules for shareholders' meetings laying down the procedures to be followed in order to permit the orderly and effective conduct of business, without prejudice, however, to the right of each shareholder to express his or her opinion on the matters under discussion.

The matters covered in the rules can include the maximum duration of individual interventions, their order, the voting procedures, the interventions by directors and members of the board of auditors, as well

as the powers of the chairman, *inter alia* with regard to settling or preventing conflicts in meetings.

12.5. In the event of a significant change in the market value of the company, the composition and/or the number of shareholders, the directors shall assess whether proposals should be submitted to the shareholders' meeting to amend the bylaws as regards the majorities required for the approval of resolutions to adopt the measures and exercise the rights provided for to protect minority interests.

With reference to the legal provisions protecting the rights of minorities that require minimum percentages to be fixed for the exercise of voting rights and the prerogatives of minorities, the Committee recommends that directors should continuously assess the desirability of adapting such percentages in line with the evolution of the company's size and shareholder structure.

13. MEMBERS OF THE BOARD OF AUDITORS

13.1. Proposals to be submitted to the shareholders' meeting for appointments to the position of auditor, accompanied by detailed information on the personal traits and professional qualifications of the candidates, shall be deposited at the company's registered office at least 10 days before the date fixed for the shareholders' meeting or at the time the related lists are deposited.

13.2. The members of the board of auditors shall act autonomously with respect to shareholders, including those that elected them.

13.3. The members of the board of auditors are required to treat the documents and information they acquire in the performance of their duties as confidential and to comply with the procedure for the disclosure to third parties of such documents and information.

As laid down in Article 7.1 for the election of directors, the Committee recommends that the members of the board of auditors should be elected by means of a transparent procedure and that shareholders should receive the information they need to exercise their voting rights in an informed manner.

The Committee believes that in a correct system of Corporate Governance the interests of the generality of shareholders must all be put on the same footing and equally protected and safeguarded.

The Committee is convinced that the interests of the majority and those of the minority must confront each other in the election of the governing bodies; subsequently, the governing bodies, and hence also the members of the board of auditors, must work exclusively in the interest of the company and to create value for the generality of shareholders.

Accordingly, the members of the board of auditors proposed or elected by the majority or the minority are not their “representatives” on the board and even less are they authorised to communicate information to third parties, especially the shareholders who elected them. They must also comply with the procedure established for the disclosure of information concerning the company to third parties.

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