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## **Report on Corporate Governance and ownership structure**

### **INTRODUCTION**

This Report describes the corporate governance system adopted by Italmobiliare S.p.A. (hereinafter also referred to as “Italmobiliare” or the “Company”).

Fulfilling applicable legal and regulatory provisions, this Report contains information on the ownership structure and compliance with the Code of Conduct for listed companies promoted by the Committee for Corporate Governance, (hereinafter “Code”, available on the Italian Stock exchange website [www.borsaitaliana.it](http://www.borsaitaliana.it)). This Report also illustrates the reasons underlying the non-implementation of certain recommendations of the Code, which the Board of Directors decided not to adopt, it describes the corporate governance practices actually applied and provides for a description of the main features of the Internal Control and Risk Management System, also with reference to the financial reporting process.

This Report, approved by the Board of Directors on March 3, 2016, is published in the section “Governance/General Meetings” on the Company’s website ([www.italmobiliare.it](http://www.italmobiliare.it)).

The information contained in this Report refers to 2015 and, in regard of specific topics, was updated as of the meeting of the Board of Directors which approved it.

### **ITALMOBILIARE S.p.A. PROFILE**

Italmobiliare adopts the traditional governance model characterized by the presence of a Board of Directors and a Board of Statutory Auditors, both appointed by the Shareholders’ Meeting, considering it the most suitable governance system to combine “efficient management” with “effective control”, and simultaneously pursue the satisfaction of the shareholders’ interests and enhancement of the management value.

The Company Corporate Governance system deduces from the following codes and regulations, as well as the By-laws:

- 1) Code of Conduct for listed companies promoted by the Committee for Corporate Governance;
- 2) Code of Ethics;
- 3) Treatment of Confidential Information;
- 4) Internal Dealing Code of Conduct;
- 5) Procedure for Transactions with Related Parties;
- 6) “Insider register” Procedure;
- 7) Regulation for the manager in charge of financial reporting;
- 8) Organizational, Management and Control Model.

The above documents are available on the Company’s website, except for the Regulation for the manager in charge of financial reporting, available to all the Group companies on the company intranet and in respect of the Insider register procedure and the special Part of the Organizational, Management and Control Model, also made available to all employees on the Company intranet.

The Company, as holding company of the Group, has always been actively committed in modernizing its business culture in order to respond to the challenges arising from developments in corporate governance rules. This process fostered and enhanced the sharing of values and the recognition that the adoption of good rules of corporate governance goes hand in hand with the dissemination of a business culture whose aims are transparency, adequate

management and effective control.

The corporate governance structure adopted by the Company, as set up in the binding articles of the By-laws and the provisions of the above mentioned codes and policies, confirms and bears witness to Italmobiliare commitment to comply with national and international best practices.

## **INFORMATION ON OWNERSHIP STRUCTURE**

### **a) Share capital structure, indicating the various share categories, related rights and obligations, as well as the percentage of share capital represented**

Italmobiliare share capital is equal to 100,166,937 euro, divided into 38,525,745 shares with a face value of 2.60 euro each, of which 22,182,583 are ordinary shares, equal to 57.58% of the entire share capital, and 16,343,162 are savings shares, equal to 42.42% of the entire share capital.

**Ordinary shares** carry voting rights at the Company's ordinary and extraordinary shareholders' meetings.

Shareholders who, even jointly, own at least one fortieth of the share capital represented by shares with voting rights, may ask, within the deadlines envisaged by the law in force, for the items on the agenda of the shareholders' meeting to be supplemented, stating in their request which further issues are being suggested or for further resolutions' proposals on the items already on the Agenda. In addition, shareholders who, individually or with other shareholders, can prove that they hold an overall stake in the share capital with voting rights that is no lower than that established by the law in force, have the right to present lists for the appointment of the Board of Directors and the Board of Statutory Auditors in accordance with the provisions of the law and the By-laws.

**Savings shares** do not carry voting rights.

When the profit for the year is allocated, savings shares are entitled to a privileged dividend of up to 5% of the face value, and it is pointed out that, if in a fiscal year a lower dividend is allocated to savings shares, the difference is calculated as an increase to the savings dividend paid in the following two years. The remaining amount is distributed to all Shareholders so that savings shares are granted an overall dividend increased, with respect to that of ordinary shares, by an amount equivalent to 3% of the face value of the shares, unless the shareholders' meeting resolves upon special allocations to the extraordinary reserves or to the Board of directors for other purposes.

In the event of distribution of reserves, savings shares have the same rights as other shares. Reduction in share capital owing to losses does not cause a reduction in the face value of the savings shares, except for that part of the loss in excess of the overall face value of the other shares.

In the event of exclusion from the stock exchange of ordinary and/or savings shares, savings shares retain the rights attributed to them by law and the By-laws, unless otherwise provided by the shareholders' meeting.

In case of dissolution of the Company, savings shares have priority in the repayment of the share capital for the full face value.

The Company does not have outstanding stock option plans either for directors or for officers. However, based on the assignments resolved in the last few years for the stock option plans in force from time to time, cancelled for the unexecuted portion, as at the date hereof 342,500 options on the stock option plan for directors, and 251,544 options on the stock option plan for officers are exercisable.

No additional categories of financial instruments granting rights to subscribe newly issued shares, other than the above mentioned options, have been issued by the Company.

### **b) Restrictions on share transfers**

No restrictions exist on share transfers or on acceptance clauses.

**c) Significant shareholders as disclosed pursuant to article 120 of TUF (i.e. consolidated law on finance)**

Shareholder	Total	% of share capital	
	No. shares	overall	ordinary
<b>Efiparind B.V.</b> (indirectly and through Compagnia Fiduciaria Nazionale S.p.A.) This figure does not take into account the 853,261 treasury shares with voting rights held by the Company.	10,484,625	27.21	47.26
<b>Serfis S.p.A.</b>	2,228,200	5.78	10.04
<b>Mediobanca S.p.A.</b>	1,805,988	4.69	8.14
<b>First Eagle Investment Management, LLC</b> (as manager, among others, of the «First Eagle Global Fund» which holds 3.99% of the ordinary share capital)	1,109,930	2.88	5.00
<b>Italmobiliare S.p.A.</b> (treasury shares)	853,261	2.21	3.85

**d) Shares that confer special control rights**

No shares conferring special control rights have been issued.

**e) Shareholding of employees: mechanism for exercising voting rights**

There is no specific shareholdings' system for employees.

**f) Restrictions on voting rights**

The By-laws do not provide for restrictions on the exercise of voting rights.

**g) Shareholders' Agreements pursuant to article 122 of TUF, of which the company is aware**

As far as the Company is aware, there are no agreements of any kind regarding the exercise of voting rights and the transfer of such shares or any of the situations envisaged by art. 122 of TUF.

**h) Significant agreements which the company or its subsidiaries are parties to, that would become effective, be modified or expire should there be a change in the control of the company and their effects, and By-laws provisions on takeover bids**

According to the policy to support its activity, the Company and some of the its subsidiaries entered into loan agreements which grant the lender the right, in case of a change of control of the financed company, to terminate the contract should the majority shareholders reduce their stake in the Company share capital, or, in other cases, to terminate the loan agreement in advance and have the consequent right to demand principal and the accrued interest or, lastly, in the case of derivative-based agreements, the right to terminate the outstanding derivative agreements.

As far as takeover bids are concerned, the Company By-laws do not provide for waivers to the provisions of TUF related to the passivity rule nor the breakthrough rule is stated therein.

**i) Agreements between the company and the directors that envisage compensation in the case of resignation or unfair dismissal or if the office ends following a takeover bid**

Please refer to the Report on Remuneration, published in compliance with TUF.

**l) Laws applicable to the appointment and replacement of directors and to amendments of the By-laws**

Please refer to section "Code of Conduct: corporate governance rules and their implementation".

**m) Delegated powers for share capital increases pursuant to article 2443 of the Italian Civil Code or**

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## ***power granted to directors to issue active financial instruments***

### **Delegated powers for share capital increases**

In execution of the extraordinary shareholders' resolutions of May 29, 2012, the Directors are granted with the powers, in once or more times within a period of five years from the resolution:

- a) under art. 2443 of the Italian Civil Code, to increase share capital once or more times up to a maximum amount of euro 260 million, free-of-charge or against consideration, by issuing ordinary and/or savings shares, also to serve bonds issued by other entities convertible into ordinary and/or savings shares of the company or that are combined with warrants for the subscription of ordinary and/or savings shares of the Company;
- b) under art. 2420-ter of the Italian Civil Code, to issue once or in various times bonds to be converted into ordinary and/or savings shares or with warrants to acquire ordinary and/or savings shares, up to a maximum overall amount of euro 260 million, in compliance with the terms and conditions established by the laws and regulations in force from time to time, with the consequent share capital increase to serve such conversion or the exercise of the captioned warrant.

All with the widest powers connected thereto, including those of offering the shares and convertible bonds or with a warrant according to the penultimate clause of art. 2441 of the Italian Civil Code; reserve up to a quarter of them under art. 2441 of the Italian Civil Code, last clause; define the provisions and reserves to enter as capital in the event of free-of-charge increase; define issue price, conversion ratios, terms and modes for the execution of the transactions.

### **Equity instruments**

The Company has not issued equity instruments of any kind, nor do the By-laws grant any power for their issue to directors as of the date hereof.

### **Authorizations to purchase treasury shares**

At their meeting of May 27, 2015, the shareholders renewed the Company's authorization to purchase and dispose of treasury shares for a period of 18 months from the date of the resolution.

Within the scope of the above authorization, the Company has not purchased any ordinary or savings treasury shares; on the other hand it has granted some of the shares held in its portfolio to stock options' beneficiaries, who exercised vested rights.

Therefore, on December 31, 2015, the Company held:

- 853,261 ordinary treasury shares, equal to 3.85% of the share capital represented by ordinary shares, to be used to serve the "Stock option plan for directors" and the "Stock option plan for officers";
- 28,500 savings treasury shares, equal to 0.17% of the share capital represented by savings shares.

## **MANAGEMENT AND COORDINATION ACTIVITY**

As noted at point «C» above, Efiaparind B.V. is the relative majority shareholder of Italmobiliare.

According to the last notice received as well as to other Company information, Efiaparind B.V. holds indirectly a shareholding, net of the treasury shares held by Italmobiliare itself, equal to 47.26% of Italmobiliare ordinary shares, representing the share capital with voting rights.

Pursuant to both art. 2497-sexies and art. 2359 of the Italian Civil Code, no company or entity exercises management and coordination activity over Italmobiliare.

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

### **1. Introduction**

The Internal Control and Risk Management System ("SCIGR") of Italmobiliare is an essential part of the corporate governance system and is a set of organizational rules, procedures and structures intended to enable the identification, measurement, management and monitoring of the main risks which the Company and its subsidiaries are subject to.

The Company defined the «Guidelines» for the Internal Control and Risk Management System upon the favorable opinion of the Control and Risk Committee, in compliance with the recommendations of the Code.

The guidelines, taking into account the peculiar structure of the Group, which includes some companies that are subjects to the supervision of national supervisory authorities with autonomous control bodies (cd. "Group of groups"), seek to ensure consistency and harmonization between various control tools, establishing, therefore, the roles and functions involved in the identification, measurement, management and monitoring of the main risks of the Company and its subsidiaries.

The SCIGR Guidelines have been transmitted to the subsidiaries so that they will take them into account in the establishment and maintenance of its internal control system notwithstanding the autonomy and independence of each company.

The SCIGR shall contribute to the management of the Company consistently with the corporate objectives set by the Board of Directors by facilitating the adoption of conscious decisions. It contributes to ensure the preservation of the Company's assets, the efficiency and effectiveness of business processes, the trustworthiness, accuracy, reliability and timeliness of financial information, the compliance with laws and regulations as well as with the By-laws and internal procedures.

The SCIGR, in line with the best national and international standards and paying constant attention to the provisions set forth in the Organizational, Management and Control Model, consists of the following three levels of control:

- Level 1: first line controls carried out by the heads of operating units that identify and assess the risks and define specific actions for their management;
- Level 2: functions in charge of the definition of methodologies and tools for risk management and performance of risk monitoring activities;
- Level 3: the Internal Audit function, as well as any other parties that provide objective and independent assessments (the so-called assurance) on the design and operation of the overall System.

The Board of Directors, with the assistance of the Control and Risk committee, sets the criteria to ensure the compatibility of the Group risks' with correct and proper management of the Company and assesses, at least on a half-yearly basis, the adequacy, effectiveness and functioning of the internal control system with respect to the characteristics of the Company.

With reference to the subsidiaries that have their own and autonomous internal control functions performing tasks similar to the duties assigned to the Control and Risk committee by the Code, the Control and Risk committee of Italmobiliare reviews and assesses the reports received from the subsidiaries' relevant functions.

The Board of directors monitors and examines the risks which the Company and the Group as a whole are subject to, and that, as given the business activities, are essentially financial.

A risk model, in compliance with best practices for the identification, evaluation and management of company risks, is being implemented by identifying three main areas: trading portfolio, investments and processes / organizational areas of the holding Company.

This process is operating in the main subsidiaries.

### **2. Positions and Functions involved**

The «Guidelines» for the Internal Control and Risk Management System provide for the involvement of the following corporate bodies and functions:

- 1) **Board of Directors**, with the following tasks:

- a) examining and approving the Strategic Plan, monitoring periodically the related implementation;
  - b) defining the risk profile, both as to nature and level of risks, in a manner consistent with the Company's strategic objectives, as determined by the same Board at the time of approval, amendment or revision of the Strategic Plan;
  - c) evaluating the adequacy of the organizational, administrative and accounting structure of the Company as well as of its strategically significant subsidiaries in particular with regard to the internal control and risk management system;
  - d) upon opinion of the Control and Risk Committee:
    - 1) defining, in line with the Company's risk profile, the guidelines of the internal control and risk management system, also seeing to its updating, so that the main risks concerning the issuer and its subsidiaries are correctly identified and adequately measured, 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;
    - 2) assessing, at least annually, the adequacy and effectiveness of the Internal Control and Risk Management System with respect to the Company's characteristics and the risk profile assumed, ensuring that:
      - duties and responsibilities are allocated in a clear and appropriate manner;
      - control functions, including the Head of Internal Audit, the Manager in charge of financial reporting and the Supervisory Board have been provided with the appropriate resources for the performance of their duties and are granted an appropriate degree of independence within the corporate structure.
    - 3) approving, at least annually, the plan (which should also address the reliability of information systems) drafted by the Head of Internal Audit, having heard the opinion of the director in charge of the Internal Control and Risk Management System and the Board of Statutory Auditors;
    - 4) upon proposal of the Director in charge of the Internal Control and Risk Management System, after also hearing the opinion of the Board of Statutory Auditors, appointing and dismissing the Head of Internal Audit, ensuring that the same is adequately provided with the resources to carry out their responsibilities and defining their remuneration in line with corporate policies;
  - e) examining and approving the financial statements for the period.
- 2) **Director in charge of the Internal Control and Risk Management System** (in short "**Director in charge**"), identified by the Board of Directors' meeting of May 27, 2014, in the person of the Chief Executive Officer – Chief Operating Officer.
- According to the Code, he has the task of:
- a) identifying the main business risks, taking into account the characteristics of the activities carried out by the Company and its subsidiaries, and submit them periodically to the review of the Board of Directors;
  - b) implementing the guidelines defined by the Board of Directors, taking care of the planning, implementation and management of the internal control and risk management system, constantly monitoring its adequacy and effectiveness;
  - c) proposing to the Board of Directors, after the favorable opinion of the Control and Risk Committee and after hearing the opinion of the Board of Statutory Auditors, the appointment, removal and remuneration of the Head of Internal Audit ensuring its operating independence and autonomy from each head of operating departments, verifying that the same is provided with adequate resources for the fulfillment of the tasks entrusted thereto;
  - d) adjusting such system to the dynamics of the operating conditions and the legislative and regulatory framework;
  - e) promptly reporting 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 in order for the committee (or the Board) to take the appropriate actions.

The Director in charge can also ask the Internal audit function to carry out reviews of specific operational areas and on the compliance of business operations with rules and internal procedures, giving simultaneous notice to the Chairman of the Board of Directors, the Chairman of Control and Risk committee and the Chairman of the Board of Statutory auditors.

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Under the powers granted to him, the Director in charge promoted the development of a Risks Management Model for the identification, assessment and management of the company risks based on various levels.

Moreover, since the two positions coincide, the Director in charge is responsible for issuing, together with the Manager in charge, statements on the adequacy and effective implementation of administrative and accounting procedures, the compliance of documents with applicable international financial reporting standards, compliance of documents with book entries and accounting records, the suitability of documents to give a true and fair representation of the financial position and results of operations of the Company and of the Group, etc..

- 3) **Control and Risk Committee**, which, as a body supporting and assisting the Board of Directors, carries out advisory and proactive functions. In particular it:
- a) evaluates together with the Manager in charge of financial reporting, after hearing the external auditors and the Board of Statutory auditors, the correct application of the accounting standards, as well as their consistency for the purpose of preparing of the consolidated financial statements;
  - b) expresses opinions on specific aspects relating to the identification, measurement, management and monitoring of the Company's main risks upon request;
  - c) reviews 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) monitors the independence, adequacy, efficiency and effectiveness of the Internal Audit Function;
  - e) whenever deemed necessary or desirable for a better management of business risks, requires the Head of Internal Audit to carry out reviews of specific operational areas, giving simultaneous notice to the Chairman of the Board of Statutory auditors;
  - f) reports to the Board of Directors at least half-yearly, on the occasion of the approval of the annual and interim financial report, on the activity carried out, as well as on the adequacy and effectiveness of the Internal Control and Risk Management System;
  - g) promptly exchanges information with the Board of Statutory Auditors relevant to the performance of their respective tasks.
- 4) **Manager in charge of financial reporting**, who, as provided for in the regulation approved by the Board of Directors, is responsible, among other things, for:
- a) planning adequate administrative and accounting procedures for the drafting of the financial statements, the condensed interim financial statements and the consolidated financial statements, as well as any other financial reporting, by updating such procedures and ensuring dissemination and compliance, as well as verifying their effective application;
  - b) assessing, together with the Control and Risk Committee and the external auditors, the correct application of accounting policies and their uniformity for the purposes of the consolidated financial statements;
  - c) handling the periodic reporting to top management and the Board of Directors on the activities undertaken;
  - d) managing the periodic review of the risks' assessment activities and updating the mapping of financial reporting risks';
  - e) taking part in the development of IT systems that have an impact on the Company's financial positions and results of operations.

The Manager in charge of Italmobiliare acknowledges and evaluates the reports on the activities performed by the internal control and risk management corporate bodies of the Group subsidiaries, that are considered relevant.

The Board of Directors meeting held on May 27, 2014, confirmed Mr. Giorgio Moroni, Co-Chief Operating Officer Administration & Finance, as the Manager in charge of financial reporting, pursuant to Art. 154-bis of TUF and Art. 29 of the By-laws.

The appointment of Mr. Moroni will expire upon completion of the term of office of the current Board of Directors, i.e. with the approval of the 2016 financial statements.

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Pursuant to the By-laws, the Manager in charge of financial reporting must:

- 1) be qualified as a manager and meet the requirements of good reputation set forth by law for members of the Board of Directors;
- 2) have a total of at least three years' experience in performing administrative/accounting and/or financial and/or control activities at the Company and/or its subsidiaries and/or at other joint-stock companies.

The Board of Directors, upon appointment, provided such Manager with autonomous financial resources to exercise the powers granted to him with the duty to report to the Board of Directors on the financial resources used every six months. Furthermore, the Board of Directors, upon proposal of the Remuneration Committee, defines, at the time of appointment and then annually, the remuneration of the Manager in charge.

- 5) **Head of Internal Audit**, who is entrusted with the task of verifying the functioning and adequacy of the Internal Control and Risk Management System, providing an objective assessment of its suitability to corporate bodies and top management.

He has direct access to all relevant information for the performance of his duties, is not responsible for any operational area and is under the Board of Directors hierarchically.

The Head of Internal Audit reports on the Company's risk management process as well as about the compliance with the management plans defined for risk mitigation, and expresses its assessment to the Board of Directors, Control and Risk Committee, to the Director in charge and to the Board of Statutory Auditors on the adequacy of the Internal Control and Risk Management System.

The Board of Directors, at its meeting held on May 27, 2014, after hearing the opinion of the Board of Statutory Auditors, confirmed Mrs. Delia Strazzarino as Head of Internal Audit.

The Head of Internal Audit annually illustrates to the Control and Risk Committee the Internal Audit structure which has been considered appropriate, both in terms of headcount and professional skills to fulfill the tasks entrusted to it.

Within its "Assurance and Quality improvement Program", the Internal Audit Department is subject, at least every five years, to a Quality Assurance Review by an independent external entity. Last review, performed on late 2011, had an outcome of general compliance with relevant international standards.

The Board of Directors following the opinion served by the Control and Risk Committee and having heard the Board of Statutory Auditors and the Director in charge, approved:

- the Internal Audit Charter during the meeting of November 14, 2013. The Charter, lastly modified by a board resolution dated 13 February 2015, officially defines the mission, objectives, organisational context and responsibilities of the Internal Audit Department, in accordance with the definition of Internal Auditing, with the Code of Ethics of the Institute of Internal Auditors ("IIA") and with the International Standards set by the International Professional Practices Framework of the IIA.
- the 2016 Audit Plan prepared by the Head of Internal Audit during the meeting of January 21, 2016.

The Internal Audit Department performs its activities directly with reference to Italmobiliare group, except for the subsidiaries that have an independent Internal audit function.

At Group level, the Head of Internal Audit coordinates / connects with the homologous functions of the subsidiaries in order to promote uniformity of approach in working tests and adequacy of SCIGR, taking into account the autonomy, independence and responsibility of those subsidiaries and their corporate bodies.

- 6) **Supervisory Body**, which is responsible for the ongoing monitoring of the effective operation and compliance with the Organization, Management and Control model pursuant to Legislative Decree no. 231/01.

As part of its duties, the Supervisory Body, periodically meets with executives of the Company in charge of sensitive areas under Legislative Decree no. 231/01, the Board of Statutory Auditors, the Control and Risk committee, the Manager in charge and the representatives of the independent auditors in respect of any matters relevant to the prevention of offenses specified in the Model, including those relating to financial reporting.

This body is autonomous and independent in the exercise of its functions, and its members have adequate qualifications in the field of risk control associated with the specific activities carried out by the Company and its legal



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aspects. It reports directly to the Board of Directors, which appoints it with a motivated resolution with respect to each member, chosen solely on the basis of qualifications, integrity, competence, independence and functional autonomy requirements.

The Supervisory Body is granted with autonomous initiative and control powers within the Company in order to efficiently exercise its functions.

The Supervisory Body periodically, and at least every six months, prepares a written report on its activities sending it, together with a documented statement of expenses incurred, to the Chairman of the Board of Directors, the Chairman of the Board of Statutory Auditors, the Chairman of the Control and Risk Committee and the Manager in charge. Such reports contain proposals, if any, for additions and amendments to the Model. The aforementioned periodic report must at least contain or highlight:

- i) any problems arising with regard to implementation of the procedures set forth in the Model, adopted in implementation of or in the light of the Model and the Code of Ethics of the Company;
  - (ii) the warning reports received from internal and external parties in regard of the Model;
  - (iii) disciplinary procedures and penalties, if any, applied by the Company, with exclusive reference to activities at risk;
  - (iv) an overall assessment of the effectiveness of the Model with possible instructions for additions, corrections or changes.
- 7) **Various company Functions**, which must, to the extent of their competence, ensure the identification, measurement, management and supervision of the main risks related to group operations. Those shall ensure the proper performance of group transactions and, in particular, the correct representation of the information provided, as well as the efficient and effective implementation of administrative and accounting procedures in the areas under their responsibility.

Lastly, in this context, the Board of Statutory Auditors, as part of the tasks assigned to it under applicable laws, among other things, oversees the financial reporting process and effectiveness of the internal control, internal audit and risk management systems.

The auditing of the company's accounts, as required by the current applicable laws, was entrusted to independent auditors appointed at the Shareholders' Meeting, upon proposal of the Board of Statutory Auditors. The task of auditing the separate financial statements of Italmobiliare, the consolidated financial statements of Italmobiliare Group and performing a review of the consolidated financial statements of Italmobiliare Group for the years 2010-2018 was assigned to KPMG S.p.A. at the Shareholders' Meeting held on April 29, 2010.

The sharing and integration of information generated in the various areas is ensured by a structured information flow. In this regard, the quarterly report of the Manager in charge is, for example significant as it reports, among other things, on the results of the performed activities, the problems that emerged, the identified action plans and their progress. The same officer, together with the Chief Executive Officer, also supplied the certificate referred to in paragraph 5 of Art. 154-*bis* of TUF.

## **2.2. Description of the main features of the Internal Control and Risk Management System in regard of the financial reporting process**

### **Phases of the risk management and internal control system**

The risk management and internal control system in relation to the financial reporting process consists of a set of corporate rules and procedures, adopted by the various operating structures, aimed at ensuring trustworthiness, accuracy, reliability and timeliness of financial reporting.

Italmobiliare has defined its own operating Model to comply with the Law on savings (hereinafter, in short, "Operational Model"), detailing the operational approach for the performance of activities. This Model is based on the principles contained in the CoSO framework and in the document "Internal Control over Financial Reporting - Guidance for Smaller Public Companies", also developed by CoSO.

The evaluation process of Italmobiliare is based on the adoption of a system similar to that adopted by the subsidi-

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ary Italcementi – subject to the provisions of the Law on Savings as well – in relation to the companies directly controlled by the latter. In this Model, the risk control system is considered together with the internal control system in relation to the financial reporting process.

The Operational Model defined by Italmobiliare is based on the following main elements:

- a) **Preliminary analysis.** This activity, carried out on an annual basis and whenever deemed necessary, is aimed at identifying and assessing the risks related to the Internal Control and Risk Management System with regard to financial reporting, in order to determine priorities for the actions related to documentation, assessment and testing of administrative and accounting procedures and related controls. The identification of the relevant quantities and processes is based on quantitative (weight of revenue and assets of a single entity on consolidated amounts, the carrying amount of consolidated financial statement items related to a particular process) and qualitative (the Country in which an entity operates, specific risks, risk levels assigned to the various items) factors;
- b) **Operational planning.** Every year the activities are planned on the basis of the priorities identified through the preliminary analysis and other assumptions, if any;
- c) **Analysis of controls at company level.** Single entities, within the area of action identified in the preliminary analysis, are responsible for *i*) assessing the effectiveness of the internal control system in relation to the governance principles used at entity level (**Entity Level Controls**), as well as for *ii*) the overall management of the information systems used in the main financial reporting processes and the related IT structure (**Information Technology General Controls**). This must be carried out in accordance with the deadlines established during the operational planning and on the basis of the guidelines, instructions and templates provided by the Manager in charge;
- d) **Analysis of controls at process level.** Single entities in the area for action identified in the preliminary analysis are responsible for: *i*) documenting, with varying levels of detail depending on the level of risk allocated, the identified administrative and accounting processes, *ii*) performing tests to check the effective operation of controls, in accordance with the deadlines established during operational planning and on the basis of guidelines, instructions and templates provided by the Manager in charge;
- e) **Assessment of the adequacy and effective operation of the administrative and accounting procedures and the related controls:** in order to guarantee compliance with the key requirements for financial reporting (“financial statement assertions”), the Manager in charge, on the basis of the results of the carried out activities and the obtained documentation, assesses the overall adequacy and effective operation of the system of administrative and accounting procedures and the related controls, and more generally, the Internal Control System for these areas.

The Internal Control and Risk Management System, with reference to the financial reporting process has also benefited from:

- the ongoing development of an integrated Corporate Governance system (Organization notices, corporate processes and procedures);
- a more detailed organization and planning in relation to the provisions of Law No. 262 of December 28, 2005, containing “Provisions for the protection of savings and the regulation of financial markets” and the subsequent corrective decrees (hereinafter, in short, the “Law on Savings”), enacted by law-makers for the purpose of increasing the transparency of financial reporting and strengthening the internal control system of listed companies.

### **3. Overall Assessment of the Internal Control and Risk Management System**

The Board of Directors, based on the evaluations and information collected with the support of the preliminary activity performed by the Control and Risk Committee, with the assistance of the Director in charge, the Head of Internal Audit and the Manager in charge of financial reporting, notes that there are not been reported issues which would invalidate the overall adequacy and effectiveness of the Internal Control System and Risk Management with respect to the structure of the Company and the Group and the characteristics of the business. Moreover, the architecture of the system of internal control and risk management will be re-evaluated during 2016 taking into account the new group configuration.

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The Internal Control and Risk Management System is, in any case, subject to continuous improvement through monitoring and systematic design of improvement initiatives, consistent with international models of reference.

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## **CODE OF CONDUCT: CORPORATE GOVERNANCE RULES AND THEIR IMPLEMENTATION**

Italmobiliare complies with the Code of Conduct for listed companies approved by the Italian Committee for Corporate Governance.

However, the Board of Directors decided not to adhere to two recommendations of the Code on: i) the establishment of the Appointment Committee and ii) the adoption of the Shareholders' Meeting Regulations. Further details in this regard will be provided in this Report, based on the various topics to be illustrated.

Moreover, the Board of Directors is always open to evaluating any new orientations that may occur in the Code and their possible inclusion in the Company's corporate governance system, provided that, consistently with Company policy, the recommendations given by the Code allow the Company to enhance its trustworthiness towards investors.

### **A) BOARD OF DIRECTORS**

#### ***Role and Responsibilities***

The Board of directors is responsible for defining the strategic direction of the Company and the Group belonging to it and it is in charge of the management. To this end, pursuant to the By-laws, it is vested with all the necessary powers for the ordinary and extraordinary management of the Company, since it is competent on everything that is not expressly reserved by law and the By-laws to the Shareholders' Meeting.

In addition to the powers conferred to it by law and by the By-laws regarding the issue of shares and bonds, the resolutions concerning the following matters are also entrusted to the Board of Directors - without prejudice to the Shareholders' Meeting authority, existing by operation of law -, in compliance with Art. 2436 of the Italian Civil Code:

- incorporation of companies that are fully owned or owned at least ninety percent;
- transfer of the registered office, as long as within the (Italian) national territory;
- establishment or closure of branches, whether in Italy or abroad;
- reduction of share capital in the event of withdrawal of a shareholder;
- amendment of the By-laws to comply with mandatory legal provisions.

The Board of Directors, in compliance with the provisions of the By-laws, meets at least once in each calendar quarter. At such meeting, the delegated bodies report to the same Board and to the Board of Statutory Auditors on significant transactions put in place in the exercise of delegated powers.

The Board of Directors also has the task of passing resolutions regarding:

- transactions with a significant strategic, importance and impact on Italmobiliare financial position and results of operations, put in place by the Company itself and by its subsidiaries;
- transactions with related parties, as governed by specific company procedure and in compliance with the conditions provided therein.

Moreover, the Board is entrusted with *i)* the assessment on the overall operating performance, *ii)* the assessment of the adequacy of the organizational, administrative and accounting structure with particular reference to the Internal Control and Risk Management System, which is overseen by the Director in charge, under the powers delegated to him by the Board itself, *iii)* the granting of powers to the executive directors and *iv)* the determination of the remuneration of directors vested with special powers and key management personnel.

The directors act and make decisions on an informed basis and independently pursuing the primary objective of creating value for shareholders. They hold their office being aware that they can devote the necessary time for a diligent performance.

No exception to the non-competition provisions under Art. 2390 of the Italian Civil Code has been authorized by the Shareholders' Meeting nor is required by the By-laws. In addition, no Director is a partner with unlimited liability of any competitors, or exercises a competing business on its own or on behalf of third parties, or is a director or Chief Operating Officer of competitors.

#### ***Composition***

The Company by-laws provide that the Company shall be managed by a Board of Directors consisting of 5 up to 15 directors, appointed at Ordinary Shareholders' Meeting, for the period decided at the time of appointment, but in no

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event for more than three fiscal years and they may be reappointed when their term of office expires.

The Board of Directors currently in office is made up of fourteen members, appointed by the Shareholders' meeting of last May 27, 2014 and whose term of office expires upon approval of the financial statements for the year 2016. Twelve out of fourteen members are non-executive and, among these, seven directors are independent in accordance with the Consolidated Law and Finance (TUF); six of them also have the independence qualification set out by the Code. According to the transitional rules on gender balance, a fifth of the members is reserved for the less represented gender.

Among the fourteen Board members, Mr. Livio Strazzera represents the minority shareholder Serfis S.p.A.

The composition of the Board of Directors is shown in the table infra, as well as at the beginning of this report, where the Directors' *curriculum* are also provided, along with their seniority in office.

These *curriculum*, in accordance with the regulations, are promptly published on the Company's website at the time of appointment.

### ***Appointment and replacement of Board members***

The Company's By-laws, in compliance with the provisions of current legislation, provide that the appointment of the Board of Directors shall occur on the basis of lists that ensure that the minority shareholders obtain the minimum number of directors required by law and should comply with the regulations in force concerning the gender balance.

Lists must be filed at the Company's head offices at least 25 days before the date set for the Shareholders' Meeting on first or single call; this, together with the conditions and minimum stake required to file the lists, must be mentioned in the notice of call.

Lists may be filed only by shareholders who, alone or together with other shareholders, are able to provide evidence that they hold a percentage of the share capital with voting rights not lower than that determined by Consob pursuant to the regulations in force.

No shareholder may file, or participate in filing, even through a third person or trust company, more than one list or vote for different lists. Shareholders belonging to the same group and shareholders who adhere to a shareholders' agreement relating to the Company's shares may not file or vote for more than one list, either through a nominee or through a trust company.

Lists filed in violation of these restrictions will not be accepted.

Each candidate may be filed on one list only under penalty of ineligibility.

Pursuant to the By-laws, the lists that have a number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that one or the other gender may be represented by at least one third (rounded upwards) of the candidates. However, upon the first renewal of the Board of Directors following entry into force of the Law (October 2011), the relevant transitional provisions provide that the quota of the less represented gender be at least one-fifth of the elected candidates.

At the time of their filing, lists must include:

a) statements whereby individual candidates:

- \* accept their candidature;

- \* under his/her own responsibility state:

- the non-existence of causes of ineligibility;
- entitlement to the good reputation requirements established by the law;
- entitlement to the independence qualification required by the law and by the Code of Conduct, if any. The latter is a principle already contained in the Code of conduct originally adopted by the Company, now outmoded by the Code and which the Company has complied with. The Board of Directors considered it appropriate to keep this principle in line with the best practices governing the matter.

b) a brief resume on the personal and professional skills of each candidate with an indication of their position as director and statutory auditor in other companies;

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- c) information on the identity of shareholders who have presented lists. The intermediary certification or statement proving ownership of the shareholding prescribed by the law in force when the list is presented may also be produced after the filing of the list provided that it reaches the Company within the term envisaged by the regulation in force for the publication of lists by the Company;
- d) a statement of the shareholders who do not hold, even jointly, a controlling or majority stake, bearing witness to the absence of any connection with the majority shareholder, as defined by the law in force.

The Company By-laws do not provide for good reputation or independence qualification requirements additional to those required for the Statutory Auditors by TUF. Any elected directors whose requirements of good reputation, as set forth by law or the By-laws, become void during their term of office, will forfeit their office.

A list filed not in compliance with the above provisions will be considered as not presented.

At least 21 days before the Shareholders' Meeting date, the Company makes available at the Company premises, at the stock exchange and on its website, the lists of candidates which have been filed by shareholders along with supporting documentation.

In the event of filing of more than one list:

- all the directors are elected from the list that obtains the highest number of votes at the Shareholders' Meeting, in the order in which they are listed, except for the minimum number reserved by law for the minority shareholders' list;
- the minimum number of directors reserved by law to minority shareholders are elected from the minority shareholders' list that obtains the highest number of votes and is not connected in any way, directly or indirectly, with the majority shareholders;
- should more than one list obtain the same number of votes, a runoff is held on these lists among all the shareholders present at the Shareholders' Meeting, and the candidates are elected from the list that obtains the majority of the share capital represented at the Shareholders' Meeting.

For the purposes of the apportioning of the directors to be elected, the lists that have not achieved a percentage of votes at least equal to half of the percentage required for the presentation of lists will not be considered.

Should a party connected to a majority shareholder vote for a list of the minority shareholders, the connection is significant for the purposes of excluding the minority shareholders' elected director only if this vote was crucial for the election of said director.

Should a single list be presented, all the candidates included in that list are elected with a simple majority vote of the share capital represented at the Shareholders' Meeting.

If as a result of the voting based on lists or the voting of the only list presented, the composition of the Board of Directors does not meet the current regulations regarding gender balance, the necessary replacements will be carried out within the list that has obtained the highest number of votes or within the only list presented, starting from the candidate in the last place of the same list. Subsequently, if compliance with the requirement concerning the balance between genders is not ensured in the minimum number required by law, there will be similar replacements, again within the list that has obtained the highest number of votes, or within the only list presented.

In the absence of lists, and whenever by means of the voting list mechanism, the number of candidates elected is lower than the minimum number envisaged by the By-laws for its composition, the Board of Directors is respectively appointed or supplemented by the Shareholders at their meeting with the legal majority, provided that the gender balance set forth by current legislation in force is ensured and at least the minimum number of directors holding the independence qualification required by the law is guaranteed.

If during the year, due to resignation or other reasons, one or more directors cease to serve, the others, provided that the majority is still represented by directors appointed by the shareholders at their meeting, shall arrange to replace them by means of a resolution approved by the Board of Statutory Auditors.

Directors are replaced, in compliance with the above requirements of good reputation and independence, with the appointment of unelected candidates belonging to the same list as the directors who no longer serve, following the

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original order of presentation. Should this not be possible, the Board of Directors will act pursuant to the law. All of the above, in any case, in compliance with the current legislation in force regarding gender balance.

Directors appointed in this manner hold office until the following Shareholders' Meeting.

The Shareholders' Meeting resolves upon the replacement of directors, in compliance with the above principles, with a simple majority of the share capital represented at the Shareholders' Meeting.

The term of directors appointed in this way ends at the same time as that of the directors serving at the time of their appointment.

No limits to re-eligibility of directors have been envisaged, although directors holding the same position for more than nine years in the last twelve years could be considered - on a voluntary basis - no longer to meet the independence qualification pursuant to the Code.

## ***Executive Directors***

The Company By-laws provide that, unless the Shareholders' Meeting has already done so, the Board is entitled to appoint the Chairman and possibly one or more Deputy Chairmen and to determine their powers.

The Board of Directors, in accordance with law provisions and the By-laws, can delegate its powers to an Executive Committee, made up of some of its members, and determine their number and powers. The Board of directors can also delegate its powers to only one of its members, with the title of Chief Executive Officer - CEO - , and determine the limits of such empowerment. The Board of Directors or the Executive committee, if it has been appointed, can appoint, also from outside the Board of directors, a Chief Operating Officer - COO -, and determine his/her term of office and the relevant attributions, powers and remuneration.

The Board of Directors has appointed, among its members, in addition to the Chairman, a Deputy Chairman and a Chief Executive Officer - Chief Operating Officer.

The Chairman and the Chief Executive Officer - Chief Operating Officer to whom the Board of Directors, upon appointment, granted duties and powers identifying any quantitative limits, are considered executive directors.

The Board also granted the Executive Committee all its powers except for those that pursuant to the Italian Civil Code and the By-laws may not be delegated. The resolutions of the Executive Committee are reported to the Board of Directors at its next meeting.

The consistency of direction and coordination of activities is ensured by the presence of the Chairman, the Chief Executive Officer - Chief Operating Officer and the Deputy Chairman, directors and Company managers on the Boards of Directors of the main subsidiaries.

## ***Allocation of responsibilities and delegation of powers***

The granting of powers is based on the principle of segregation of duties.

The delegation of powers, i.e. the assignment of operating powers to one or more persons and/or the Executive Committee, does not exclude the competence of the Board of Directors, which in any case holds a superior steering and controlling power over the Company's general activities as to its various components.

Among the five members of the Executive Committee, two are executive directors; the remaining ones, two of which independents, are considered, however, non-executive directors, as the Company's Executive Committee meets without any regularity and, in fact, exclusively to address the timely examination of certain transactions and for the adoption of the relevant resolutions. The Code also shares this interpretation provided that, as in this case, the director, member of the Executive Board, is not given individual executive powers.

Within the Board of Directors, the allocation of powers is as follows:

- to the **Executive Committee**, consisting of five members, all the powers and the assignments of the Board of Directors, except for those which the law and the By-laws do not allow to be delegated. As specified at the time of its appointment, the resolutions of the Executive Committee must be reported to the next Board of Directors' meeting;
- to the **Chairman**, Mr. Giampiero Pesenti, among others, the duties to supervise and ensure the compliance with Corporate Governance principles approved by the Company proposing any amendment to them at the Board of Directors, to supervise the execution of the investment plans' as defined by The Board and/or the Executive

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Committee and to propose resolutions to the Board of directors and to the Executive committee. The Chairman was granted, among others, in addition to the representation powers' envisaged by the Bylaws, the powers to undertake any administrative act and measure, among which, to acquire and dispose of equity investments, carry out credit and securities transactions, accept guarantees, grant collateral and guarantees in favor of third parties as long as these are direct or indirect subsidiaries or affiliated of Italmobiliare, within a maximum amount of 20 million euro for each transaction; to enter into real estate sale and purchase agreement, trade-in and real division to settle easements or real estate rights in general, within the maximum amount of 20 million euro for each transaction;; appoint every kind of consultant defining their remuneration, possible deposits, suspending, terminating and modifying the relationship with the latter, with the powers of granting power of attorney to manage them.

- to the **Deputy Chairman**, Mr. Italo Lucchini, the sole representative powers, according to the By-laws, to be exercised severally by the Chairman and by the Chief Executive Officer;
- to the **Chief Executive Officer - Chief Operating Officer**, Mr. Carlo Pesenti, among others, the tasks of supervising management policies and business development strategies' of Italmobiliare and the main directly and indirectly controlled companies; supervise and direct the activities of Italmobiliare and its main subsidiaries; establishing guidelines for the management of the main companies in which Italmobiliare holds, directly or indirectly, an interest that allows it to exercise significant influence; taking care of the organization and propose to the Board of Directors the main organizational changes. At the same time were granted, among others, the powers to perform all administrative and disposal acts on the management of the Company among which securities and credit transactions, to undertake on behalf of the Company bonds of any kind, also secured by collateral, accept guarantees, loan collateral and guarantees in favor of third parties as long as these are direct or indirect subsidiaries of Italmobiliare, acquire and dispose of government securities, bonds, land, stocks, company shareholdings, performing sale or purchase carry-over and forward transactions on securities within a maximum amount of 20 million euro, for each transaction.

Other powers for current management activities were granted to the Co-Chief Operating Officer Administration and Finance, to the Secretary of the Board and to other managers, within their respective area of competences.

The Chairman, the Chief Executive Officer - Chief Operating Officer have periodically reported to the Board of Directors and the Board of Statutory Auditors, as envisaged by the Code and by the Company by-laws, about activities undertaken within their assignments and powers. In addition, the most important transactions undertaken by the Company or by the subsidiaries with an impact on its financial statements, the main transactions with related parties as well as transactions leading to potential conflicts of interests, have been always submitted to the Board of Directors, even when within the limits of their powers.

### **Independent Directors**

In accordance with the regulations in force, at least one of the members of the Board of Directors, or two in case it is composed of more than seven members, must meet the independence requirements established by law for members of the Board of Statutory Auditors.

The Code also requires that the number and qualifications of independent directors are adequate in relation to the size of the Board and to the Company's activities and such as to allow the establishment of committees within the Board; also under the Code, the independent directors must be two at least.

In compliance with the provisions and recommendations mentioned above, each individual concerned, upon submission of the lists of candidates for the office of director, must declare that he/she meets the requirements for independence under the TUF and pursuant to the Code; the Board of Directors, at its first meeting after the appointment of its members, will, on the basis of information provided by each person or information available to the Company, verify that directors who have declared to be independent actually meet the independence requirements.

Moreover, at the time of preparing the annual Report on Corporate Governance, the Company reiterates its request to all directors in office to declare the existence or not of such requirements. Their responses are annually submitted to the Board for the consequent independency evaluation.

The results of such assessment are disclosed to the market on occasion of appointment and shown annually in this report on the page regarding corporate bodies, which opens this document, and in the table shown below.



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In case the independence requirements prescribed by law are no longer met, the director concerned must give prompt communication thereof to the Board of Directors. This circumstance entails the removal from office of such director, except in cases where such requirements are still met by at least the minimum number of directors required by current legislation.

The current Board of Directors consists of seven directors meeting the requirements of independence provided by law, six of which are also considered independent on the basis of the criteria set out in the Code.

The Board of Statutory Auditors verified the correct application of the assessment criteria and procedures adopted by the Board of Directors to evaluate the independence of its members.

During the year, all the independent members met once in the absence of the other directors, upon initiative of the lead independent director.

### ***Lead Independent Director***

The Code provides that, should the Chairman of the Board of Directors be the main officer in charge of company management, and also when the position of Chairman is held by the person who controls the Company, the Board should appoint an independent director as "*Lead independent director*", to provide a reference for and coordinate requests and contributions of non-executive directors and, in particular, independent directors.

On the occasion of the appointment of the Board of Directors for the 2014-2016 mandate, the Board of Directors, at its meeting of 27 May 2014, approved the dissociation of the functions of Chairman and Chief Executive Officer; however, in light of the shareholding structure and in compliance with the best practices, the Board has decided to appoint Mr. Massimo Tononi, independent director, as "Lead Independent Director".

### ***Remuneration for Directors and Key management personnel***

The remuneration for Directors was determined by the Shareholders' Meeting held on May 27, 2014 that, until a new resolution, set such remuneration in the fix amount of 36,000 euro per year for each director, plus attendance fees for participation at the various board committees, as indicated below.

\* € 6,000 for each attendance at meetings of the Executive Committee;

\* € 3,000 for each attendance at meetings of the Remuneration Committee, the Control and Risk Committee and the Committee for Transactions with Related Parties;

\* € 2,500 to each member of the Board of Directors appointed member of the Supervisory Board for each attendance at meetings of the same.

Furthermore, the General meeting of 27 May 2015, has defined in gross € 3,000 the compensation to be granted to each member of the Investments Committee – set up on March 24, 2015 – for the attendance at meetings of the captioned Committee.

The remuneration of the Chairman, the Chief Executive Officer - Chief Operating Officer, Manager in charge of financial reporting and Head of Internal Audit is determined by the Board of Directors, in the absence of the concerned parties, upon proposal of the Remuneration Committee, having heard the opinion, when required, of the Board of Statutory Auditors and the Control and Risk Committee.

A significant part of the remuneration of the Chairman, the Chief Executive Officer and Chief Operating Officer is linked to the financial performance and the achievement of specific targets set beforehand and determined in accordance with the remuneration Policy adopted by the Company.

For detailed information please see the Remuneration Report prepared pursuant to Art. 123-ter of TUF and approved by the Board of Directors on March 3, 2016.

### ***Limitations on the number of offices***

The Board of Directors in accordance with the Code, resolved that the maximum number of offices that can be held as director or statutory auditor in other companies listed on regulated markets including abroad, in financial, banking, insurance or major companies, considered compatible with the effective performance of the office of Company director, with the exception of its subsidiaries, parents and companies subject to joint control, was the follows:

- five (for the office of executive director) and
- ten (for the office of non-executive or independent director or statutory auditor)

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A list of offices as director or statutory auditor held by each director in other companies listed on regulated markets even abroad, in financial, banking, insurance or major companies, at the date of this report, is set out below:

Giampiero Pesenti	* Italcementi S.p.A. * Compagnie Monegasque de Banque * Credit Mobilier de Monaco	- Chairman - Director - Director
Italo Lucchini	* Italcementi S.p.A. * Unione di Banche Italiane S.c.p.a. * Almag S.p.A.	- Director - Member of Management Board - Chairman of the Board of Statutory Auditors
Carlo Pesenti	* Italcementi S.p.A.	- Chief Executive Officer
Anna Maria Artoni	* Artoni Group S.p.A. * Artoni Trasporti S.p.A. * Gruppo MutuiOnline S.p.A. * Prelios S.p.A.	- Sole director - Vice Chairman - CEO - Director - Director
Giorgio Bonomi	* Italcementi S.p.A.	- Director
Carolyn Dittmeier	* Autogrill S.p.A. * Assicurazioni Generali S.p.A.	- Director - Chairman of the Board of Statutory Auditors
Sebastiano Mazzoleni	* Italcementi S.p.A.	- Director
Luca Minoli	* Cemital S.p.A. * Finanziaria Aureliana S.p.A. * Privital S.p.A.	- Chairman - Chairman - Chairman
Gianemilio Osculati	-	-
Clemente Rebecchini	* Assicurazioni Generali S.p.A. * Atlantia S.p.A.	- Deputy Chairman - Director
Paolo Sfameni	* Allianz Bank Financial Advisor S.p.A. * Investitori SGR S.p.A. * La Fenice S.r.l. * Pirelli Tyre S.p.A.	- Director - Director - Statutory Auditor - Statutory Auditor
Livio Strazzerà	* Serfis S.p.A. * Banca Popolare Commercio e industria	- Sole Director - Substitute Deputy Chairman
Massimo Tononi	* Banca Monte dei Paschi di Siena S.p.A. * Prysmian S.p.A. * Istituto Atesino di Sviluppo S.p.A.	- Chairman - Chairman - Chairman
Laura Zanetti	* Incofin S.p.A.	- Director

## ***Meetings of the Board of Directors***

The Chairman coordinates the activities and conducts the meetings of the Board of Directors and ensures that the documentation relating to items on the agenda is disclosed to the directors and statutory auditors properly in advance. In particular, the Board of Directors set as at least two days the prior notice period to be observed in order to submit the aforementioned documentation. Such prior notice period has always been met during 2015.

When the material on certain items on the agenda is particularly complex, specific explanatory notes prepared on each occasion by the competent corporate functions are also sent in order to facilitate the adoption of resolutions by board members on these issues. All documentation is sent by e-mail in files protected by passwords only known to the recipients in order to preserve confidentiality of the data and information provided.

Moreover, the Chairman, through the competent company functions, ensures that directors participate in initiatives aimed at increasing their knowledge of the company's operations and dynamics and are informed on key legislative and regulatory developments having an impact on the Company and its corporate bodies.

The Board meets at least every quarter to approve the financial statements for the period. At such meeting, the delegated bodies report on the activities performed by virtue of their respective powers. Moreover, pursuant to the By-laws, the Board meets anytime deemed necessary by the Chairman, or the Deputy, or upon request of a member of the Board of statutory Auditors to the Chairman of the Company.

During 2015, the Board of Directors held a total of eight meetings, two of which at the presence of all Directors. Ten Directors attended all the meetings; thirteen directors attended three meetings; two meetings were attended by twelve directors and one meeting was attended by eleven directors. Six independent directors were always present; an independent director attended six meetings out of eight. Four meetings of the Board of Directors were attended by all members of the Supervisory Board, at the remaining four meetings was absent a Statutory Auditor.

All meetings of the Board of Directors were attended, by invitation, by the Manager in charge of financial reporting. Some meetings were also attended by managers of the Company and of the major subsidiaries to provide additional information on the topics put on the agenda from time to time. In particular, were invited to attend Mr. Enrico Benaglio, Head of Investments department and of Investor relations, Mrs. Delia Strazzarino, Head of Internal Audit, Mr. Silvestro Capitanio, Head of Human Resources and Organizational development, Mr. Mario Fera, assistant to Italcementi S.p.A. CEO, Mr. Giuliano Palermo, Manager of Italcementi Group M&A and Mr. Luigi Carnelli, Managing director of Finter Bank Zürich, Swiss bank, 100% owned and sold during 2015.

The average duration of the meetings of the Board of Directors held during the year was about three hours.

As required by the Code and as per common practice, the Board, when examining and approving the financial statements for the period, taking into particular consideration the information received from the delegated bodies, assesses the overall company performance by comparing the results achieved with those planned in the annual budget.

During 2016, the Board of Directors has so far met twice, the first time to examine the Audit plan, the second time to approve - among others - the 2015 draft financial statements. At least other three board meetings are scheduled for the current year for the approval of the interim reports.

The corporate calendar is annually disclosed to the market and published on the Company's website in the section Investor / Financial Calendar. The 2016 calendar was published in January.

The Executive Committee met twice in 2015, at the presence of all its members. One meeting of the Executive Committee was attended by all the members of the Supervisory Board, while at the second one were presents two Statutory auditors.

During 2016, the Executive Committee did not met so far.

## ***Establishment of committees***

In order to ensure the effective performance of its functions, the Company's Board of Directors has set up an internal Remuneration Committee and a Control and Risk Committee whose resolutions have a consultative and advisory nature and do not bind the Board.

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Moreover, pursuant to the rules applicable to transactions with related parties, the Board established an internal Committee for Transactions with Related Parties, composed of independent directors only.

Lastly, during the year, the Board of Directors has set up, internally, an Investments Committee with the task of supporting and assisting the Chief Executive Officer and the management in the definition of portfolio strategies and in the evaluation of investment opportunities proposed by operating structures, to be approved by the competent administrative body.

In carrying out their functions, the committees are entitled to access corporate information and functions necessary for the performance of their duties, and may use external consultants at the expense of the Company.

Each Committee appoints a secretary, who does not need to be a member thereof and is entrusted with the task of drawing up the minutes of the meetings.

Considering the stable presence of a relative majority shareholder which is able to significantly influence the Shareholders' meetings, the Company decided, not to proceed with the establishment of an "Appointment Committee" as it has always taken its decisions in full autonomy proposing people with the appropriate characteristics of competence, prestige, expertise and availability, as provided for by the Code, for the list of candidates to the Board of Directors.

## a) Control and Risk Committee

In compliance with the provisions of the Code, the Control and Risk Committee has the task of supporting, through adequate preparatory work, the assessments and decisions of the Board of Directors relating to the Internal Control and Risk Management System, as well as those regarding the approval of annual and interim financial reports.

The Control and Risk Committee consists of three members, all non-executive, two of which independents and it is chaired by Mrs. Carolyn Dittmeier. As required by the Code with reference to at least one component, is respected the requirement to have adequate expertise in accounting and finance.

During 2015, the Control and Risk Committee met nine times, always with the participation of all its members. The average duration of meetings was about three hours. The Board of Auditors has participated fully in five meetings, to the remaining ones attended two Statutory Auditors.

During fiscal year 2015, the Committee, among other things:

- a) examined and approved the methodology used by the Company for the preparation of impairment tests;
- b) acknowledged the correct implementation of the accounting policies and their consistency for the purposes of preparing the consolidated financial statements;
- c) reviewed and approved the 2015 Audit Plan upon verification of its results;
- d) examined and proposed some amendments at the Internal Audit Charter prior to the approval of the Board of Directors;
- e) analyzed the setting of the risk management at Group level;
- f) examined the reports prepared by the Head of Internal Audit to verify the adequacy, efficiency and effectiveness of the Internal Control System;
- g) met the audit committees of the main subsidiaries;
- h) reported to the Board of Directors, when approving the annual and interim financial reports, on its activities and on the adequacy of the Internal Control and Risk Management System as well as with reference to a specific task assigned by the Board of Directors.

Managers of the Company responsible for the matters on the agenda are regularly invited to the meetings of the Control and Risk Committee to provide the appropriate in-depth information; first and foremost, the Manager in charge of financial reporting and the Head of Internal Audit.

During 2016, the Control and Risk Committee has so far met twice to discuss, among other things, the methodology of impairment tests for 2015, the accounting policies adopted for the preparation of the 2015 consolidated financial statements and the Audit Plan for 2016, the latter in turn submitted to the approval of the Board of Directors at its meeting on January 21, 2016.

On February 25, 2016, the Committee also examined the part of this Report regarding the description of the Internal Control and Risk Management System sharing its content.

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## b) Remuneration Committee

The Remuneration Committee, under the Code, is responsible for (i) periodically assessing the adequacy, overall consistency and actual implementation of the policy for the remuneration of directors and managers with strategic responsibilities, submitting proposals to the Board of Directors, and (ii) submitting proposals or expressing opinions to the Board of Directors on the remuneration of executive directors and of other directors who hold particular offices, as well as on the setting of performance targets related to the variable portion of such remuneration. The Remuneration Committee is also required to monitor the implementation of the resolutions adopted by the Board, in particular, by verifying the actual achievement of performance targets.

The Remuneration Committee currently in office is made up of three non-executive members, the majority of whom are independent. All of its members are in possession of adequate experience in accounting and finance, as required by the Code for at least one of them. During the year, the Chairman of the Committee, Mr. Massimo Tononi, has asked to be relieved from the office of Remuneration Committee member because of prominent professional commitments and it has been appointed, as third member, Mr. Paolo Sfameni.

The Committee, in the absence of the concerned parties, examined, and subsequently approved, the remuneration policy for executive directors and/or directors vested with special powers and key management personnel and submitted proposals to the Board of Directors on the remuneration of directors and managers.

During the year the Committee met three times at the presence of all its members; the average duration of its meetings was approximately two hours. All members of the Board of Statutory Auditors attended two meetings, to the remaining one attended two Statutory Auditors. The Head of Human Resources is regularly invited participate.

During 2016, the Remuneration Committee has so far met once to make proposals to the Board of Directors regarding the remuneration of directors and managers, to evaluate the achievement of performance targets during 2015 and examine the remuneration Report.

## c) Committee for Transactions with Related Parties

The Committee for Transactions with Related Parties is composed of three members, all non-executive and independent and it's chaired by Mr. Paolo Sfameni.

During 2015, the Committee met four times in order to examine some transactions with related parties executed by the Company evaluating, from time to time, the substantial and procedural correctness of the same. Those transactions, indeed, were exempt from the procedural safeguards adopted in accordance with the regulatory provisions in force but those were nevertheless submitted to the consideration of the Committee for transactions with related parties for enhanced care of the Board of directors.

## d) Investments Committee

The Investments Committee, established during the year, to support and assist the Chief Executive Officer and management in the definition of portfolio strategies and evaluation of investment opportunities, is composed of six members, four of which are independent, and it is chaired by the Chief Executive Officer, Mr. Carlo Pesenti.

During 2015, the Investment Committee met twice, always with the participation of all its components. The average duration of meetings was about two hours. The Board of Statutory Auditors was present in full at the second meeting.

## **Assessment of the functioning of the Board of Directors and its Committees**

As envisaged by the Code, on March 3, 2016, the Board of Directors assessed the size, composition and functioning of the Board itself and its Committees.

To this extent, the Company circulated among the directors a self-assessment questionnaire made up of statements, for which the respondent had to rate their level of agreement. The questionnaire was returned anonymously by 11 directors out of 14.

## **B) BOARD OF STATUTORY AUDITORS**

### ***Role and responsibilities***

The Board of Statutory Auditors oversees compliance with the law and the By-laws and it has management control functions, in particular having to check: i) compliance with the principles of good administration; ii) adequacy of the

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Company's organizational structure, the internal control system and the administrative and accounting system; iii) actual implementation of the Code; iv) compliance with the procedure adopted by the Company in respect of transactions with related parties; v) adequacy of the instructions given by the Company to its subsidiaries in respect of the obligations of public disclosure of sensitive information.

It is not entrusted with the legally-required audit of the company's accounts, which, as required by law, is entrusted to an independent auditor chosen among those enrolled in the appropriate register, while it has the task to submit a reasoned proposal to the Shareholders' Meeting regarding the appointment of such auditors.

The Board of Statutory Auditors, in its capacity as Control and Risk Committee, as established by January 27, 2010 Legislative Decree No. 39, is also required to perform additional supervision tasks, as assigned to it by such provisions of law, on the financial reporting process, on the effectiveness of the internal control, internal audit and risk management systems; on the audit of the separate financial statements and consolidated financial statements, on the independence of the audit firm.

### ***Appointment and replacement of statutory auditors***

The Board of Statutory Auditors is appointed on the basis of lists aimed at ensuring the appointment of one Acting Auditor and one Substitute Auditor for minority shareholders, as well as compliance with current legislation regulating gender balance.

Lists must be filed at the Company head offices or by sending notice to the certified electronic mail address indicated in the notice of call, at least 25 days before the date set for the Shareholders' Meeting in first or single call; this, together with the procedures and minimum stake required to file the lists, must be mentioned in the notice of call.

Lists may only be presented by Shareholders who, alone or together with other shareholders, are able to provide evidence that they hold a percentage of the share capital with voting rights no lower than that determined by CONSOB pursuant to the regulations in force concerning the appointment of the Board of Directors.

No shareholder may file or participate in the filing of more than one list, directly or through a nominee or trust company, or vote for different lists. Shareholders belonging to the same group and shareholders who join a shareholders' agreement on the Company shares may not file or vote for more than one list, neither through a nominee or trust companies.

Lists filed in violation of these restrictions will not be accepted.

Each candidate may be on one list only under penalty of ineligibility.

The lists that have a total number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that one or the other gender is represented by at least one third (rounded upwards) of candidates for the office of Acting Auditor and at least one third (rounded upwards) of the candidates for the office of Substitute Auditor. At the time of their filing, lists must include:

- a) statements whereby individual candidates:
  - \* accept their candidature;
  - \* state, under his/her own responsibility:
    - entitlement of the professional requirements envisaged by the By-laws;
    - the non-existence of causes of ineligibility or incompatibility;
    - entitlement of the good reputation requirements established by the law;
    - entitlement of the independence criteria required by the law and by the Code of Conduct;
- b) a brief curriculum on the personal and professional skills of each candidate with an indication of their position as director and statutory auditor in other companies;
- c) information on the identity of the shareholders who have presented lists. The certification or statement proving ownership of the shareholding prescribed by the law in force when the list is presented may also be produced after the filing of the list provided that it reaches the company within the term envisaged by the regulation in force for the publication of lists by the Company;
- d) a statement by the shareholders who do not hold, even jointly, a controlling or majority stake, bearing witness to the absence of any connection, as defined by the law in force.

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A filed list that does not comply with the above provisions will be considered as not filed.

In the event that, by the deadline of 25 days preceding the date of the Shareholders' Meeting, a single list has been filed, or only lists presented by shareholders who are connected to each other pursuant to current regulations, further lists can be presented until the following third day and the participation threshold indicated in the notice of call will be halved.

At least 21 days before the date envisaged for the Shareholders' Meeting which is called to appoint the Board of Statutory Auditors, the Company shall make available the lists of candidates which have been submitted by shareholders and the accompanying documentation at its head offices, at the Italian stock exchange and on its website,.

In the event of filing of more than one list:

- the list that obtains the highest number of votes at the Shareholders' Meeting elects two acting Auditors and two substitute Auditors, in the order in which they are listed in the sections of the list;
- the minority shareholders' list that obtains the highest number of votes among the lists presented and voted by shareholders who are not connected in any way, directly or indirectly, with the majority shareholders, elects the third acting Auditor and the third substitute Auditor, in the order in which they are listed in the sections of the list;
- should more than one list obtain the same number of votes, a runoff is held on these lists among all the shareholders present at the Shareholders' Meeting, and the candidates are elected from the list that obtains the majority of the share capital represented at the Shareholders' Meeting.

Should a party connected to a majority shareholder vote for a list of the minority shareholders, the connection is relevant for the purposes of excluding the minority shareholders' elected Auditor only if this vote was crucial for the election of said auditor.

Should a single list be presented, all the candidates included in that list are elected with a simple majority vote of the share capital represented at the Shareholders' Meeting.

If, as a result of voting several lists or voting the only list presented, the composition of the Board of Statutory Auditors, as to its acting members, does not meet the current regulations regarding balance between genders, the necessary replacements will be made choosing from among candidates to the office of acting auditor of the list that has obtained the highest number of votes or from within the only list presented starting from the last candidate from that list.

Should no lists be presented, the Shareholders' Meeting appoints the Board of Statutory Auditors with a simple majority vote of the share capital represented at the Shareholders' Meeting, provided gender balance is ensured as pursuant to current legislation in force. The Chairmanship of the Board of Statutory Auditors lies with the person indicated in first place on the list presented and voted by the minority shareholders, or with the first name in the single list presented or with the person appointed as such by the Shareholders' Meeting should no lists be presented.

Pursuant to the By-laws of Italmobiliare, those who are in situations of incompatibility as envisaged by the law or those who have exceeded the limit to the number of offices held as established by the regulation in force, cannot be elected as Statutory Auditors, and if elected cease to serve.

Should an elected Statutory Auditor during his/her term of office no longer meet the requirements envisaged by the law or the By-laws, his/her office terminates.

When it is necessary to replace an acting Auditor, the substitute Auditor belonging to the same list as the removed Statutory auditor takes over.

In the absence thereof, in accordance with the original order of presentation, the candidate from the same list as the ceased Auditor takes over, without taking the initial section into account.

Should the replacement concern the Chairman of the Board of Statutory Auditors, the position will be taken over by the Statutory Auditor of the minority shareholders.

Auditors appointed in this manner hold office until the following Shareholders' Meeting.

Should it be necessary to supplement the Board of Statutory Auditors:

- 
- to replace a Statutory Auditor elected from the majority shareholders' list, the appointment takes place with a simple majority vote of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated in the original majority Shareholders' list;
  - to replace a Statutory Auditor elected from the minority shareholders' list, the appointment takes place with a simple majority vote of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated in the original minority shareholders' list;
  - for the simultaneous replacement of Auditors elected in the majority and the minority shareholders' lists, the appointment occurs with a simple majority vote of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated in the list which each Statutory Auditor to be replaced was part of, with a number of Statutory Auditors equal to the number of ceased Statutory Auditors belonging to the same list.

If it is not possible to proceed as above, the Shareholders' Meeting called to supplement the Board of Statutory Auditors passes a resolution with a simple majority of the share capital represented at the Shareholders' Meeting, without prejudice to the principle whereby one Acting Auditor and one Substitute Auditor must be appointed by minority shareholders. In any case, the Chairmanship of the Board of Statutory Auditors must be assigned to the Statutory auditor representing the minority shareholders. The procedures on replacements as indicated in the previous paragraphs must in any case ensure compliance with current legislation regulating gender balance.

Statutory Auditors accept their appointment when they believe they can devote the appropriate time to the diligent performance of their duties.

According to the Code, the Statutory auditors are chosen among people who may be qualified as independent according to the criteria that the same states with regard to directors.

### ***Composition and activities***

When renewing the Board of Statutory Auditors by the Shareholders' Meeting of May 27, 2014, the relative majority shareholder presented its own list of candidates while three minority shareholders - RWC Asset management, Amber Global Opportunities Master Fund and Fidelity Funds International – presented together their own list.

Therefore, according to current regulations and Company By-laws, the Chairmanship was granted to Mr. Francesco Di Carlo, from the list presented by the above mentioned minority shareholders while the remaining two Acting Auditors were elected from the list presented by the relative majority shareholder.

All the members are independent pursuant to the TUF and meet, also, the independence requirements provided by the Code for directors. In compliance with the provisions on gender balance a third is reserved for the less represented gender.

The composition of the Board of Statutory Auditors is shown in the table below and in the opening of this report, which also contains the curriculum of its members and their length of service. The curriculum are also published on the Company's website.

### ***Meetings of the Board of Statutory Auditors***

The Board of Statutory Auditors, during 2015, held a total of fifteen meetings attended by all its members, with the exception of one meeting, attended by two Statutory auditors.

At meetings of the Board of Statutory Auditors have been invited to participate the audit company KPMG, the Manager in charge of financial reporting, the Head of Internal Audit and other department managers of the Company to provide the necessary information on issues from time to time on the agenda.

The average duration of the meetings of the Board of Statutory Auditors held during the year is about two hours.



## **C) SHAREHOLDERS' MEETING AND INVESTOR RELATIONS**

The Company endeavors to develop a dialogue with shareholders based on an understanding of each other's roles, and with the market, in accordance with the laws and rules governing the dissemination of price sensitive information. The Company's behaviors and procedures are designed, among other things, to avoid information asymmetries and to ensure the effectiveness of the principle whereby all investors and potential investors are entitled to receive the same information in order to make sound investment decisions.

The Shareholders' meeting is called, according to the laws and regulations provided for companies whose shares are listed on regulated markets, to pass resolutions on matters reserved to it by law. The decisions taken in accordance with the law and the By-laws are binding on all shareholders, including those absent or dissenting, except the right of withdrawal in allowed cases.

The Board of Directors recommends to all of its members to regularly participate in Shareholders' Meetings and seeks to encourage and facilitate the widest possible participation of shareholders and to facilitate the exercise of voting rights.

To this end, the Board of Directors reports to the Shareholders' Meeting on the activities it has carried out and planned and endeavors to ensure that shareholders have adequate information so that they can take the decisions pertaining to the Shareholders' Meeting with knowledge of the facts.

All those who have the right to vote as attested by the communication required by current laws received by the Company by the end of the third trading day prior to the date fixed for the Shareholders' Meeting on single call, are entitled to attend the Shareholders' Meeting. The right to attend and vote is retained if the communications are received by the Company after the deadline, as long as they are received by the beginning of the Shareholders' Meetings proceedings of each call.

The Company may designate a person, giving a clear indication thereof in the notice of call, for each Shareholders' Meeting to whom all eligible parties may grant a proxy with voting instructions on all or some of the proposals on the agenda, in the manner provided for by applicable law.

No Shareholders' Meeting regulation has been set forth since the broad powers that the law and jurisprudence recognize to the Chairman, as well as the provision of the By-laws (Art. 13) that expressly gives the Chairman the power to direct the discussion and establish order and method of the vote, provided it takes place by recorded vote, were considered adequate tools for the orderly conduct of meetings of shareholders.

With regard to market relations, the Chairman and the Chief Executive Officer - Chief Operating Officer, within their respective responsibilities, provide the guidelines that the responsible structures should follow in dealing with institutional investors and other shareholders. To this end, an Investor Relations function whose responsibility has been entrusted to Mr. Enrico Benaglio was established as part of the Shareholdings and investments department.

Moreover, in order to provide timely and easy access to information concerning the Company and, therefore, allow the shareholders to consciously exercise their rights, a special section of the Company's website was set up, easily identifiable and accessible, where information regarding the Shareholders' Meetings is given, with particular reference to the arrangements for attendance and exercise of voting rights at the Shareholders' Meetings, the documentation relating to items on the agenda, including Reports on the items on the agenda and the list of candidates for the positions of director and statutory auditor with an indication of their personal and professional characteristics.

**TABLE 1**

**STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES**

BOARD OF DIRECTORS							Executive Committee		Control and Risk Committee		Remuneration Committee		Committee for Transactions with Related Parties		Investments Committee	
Position	Member	Executive	Non executive	Independent	Attendance	No. of other offices	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance	Member	Attendance
Chairman	Giampiero Pesenti	•			3/8	3	•	2/2								
Deputy Chairman	Italo Lucchini		•		8/8	3	•	2/2			•	3/3				
Chief Executive Officer - Chief Operating Officer	Carlo Pesenti	•			8/8	1	•	2/2							•	2/2
Director	Anna Maria Artoni		•	•	6/8	4							•	4/4		
Director	Giorgio Bonomi		•		8/8	1			•	9/9						
Director	Carolyn Dittmeier		•	•	8/8	2			•	9/9			•	4/4		
Director	Sebastiano Mazzoleni		•		8/8	1									•	2/2
Director	Luca Minoli		•		7/8	3										
Director	Gianemilio Osculati		•	•	8/8	-									•	2/2
Director	Clemente Rebecchini		•		6/8	2										
Director	Paolo Sfameni		•	•	8/8	4			•	9/9			•	4/4		
Director	Livio Strazzera		•	•	8/8	2	•	2/2							•	2/2
Director	Massimo Tononi		•	•	8/8	3					•	3/3			•	2/2
Director	Laura Zanetti		•	•	8/8	1	•	2/2			•	3/3			•	2/2

**TABLE 2**

**STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

Position	Member	Independence according to the Code	Attendance at meetings
Chairman	Francesco Di Carlo	•	15/15
Acting Auditor	Angelo Casò	•	14/15
Acting Auditor	Luciana Ravicini	•	15/15

## **CODE OF ETHICS**

The Code, approved for the first time in 1993 and further modified, envisages that all employees and those who deal with the Group or act to achieve its objectives shall base their dealings and conduct on principles of honesty, fairness, integrity, transparency, confidentiality and mutual respect.

To this end, at its meeting of February 9, 2001, the Italmobiliare Board of Directors approved the current version of the Code of Ethics which defines the rules for loyalty and fidelity, impartiality, protection of privacy and confidentiality of information, protection of people, the environment and company assets. The Code establishes the provisions which are the basis of the control processes and the accounting/operational information, and introduces rules to govern dealings with customers, suppliers, public institutions, political organizations and trade unions, and the media.

## **CONFIDENTIAL INFORMATION**

Since November 2000, the Company's Board of Directors has approved a specific procedure for the management and processing of confidential information, which also contains the procedures for the disclosure of documents and information concerning the Company and the Group, with particular reference to price sensitive information. This procedure requires strict compliance with the terms and conditions of disclosure of documents and information, while ensuring that disclosure to the market of corporate data is correct, complete, adequate, timely and objective.

The rules of procedure referred to herein bind all Company employees, the members of the Board of Directors and of the Board of Statutory Auditors, and all those who maintain an advisory relationship or collaboration with the Company and/or the Group.

Moreover, since 2006, the Company, as required by CONSOB has established and regularly updated a register of persons who, by virtue of their job or professional duties or by virtue of the functions performed, have access to sensitive information and has prepared the implementation procedure related thereto.

The following persons are required to comply with the said implementation procedure:

- a) members of the Board of Directors, of the Board of Statutory Auditors and the Chief Executive Officer of the Company;
- b) those who by virtue of work performed are hierarchically directly under one of the persons referred to in letter a) and are responsible for the organizational unit within which sensitive information originates and/or is handled;
- c) employees individually identified who belong to the same organizational unit after being notified in writing by one of the persons referred to in letter b);
- d) any third party by virtue of their work, professional duties or functions performed on behalf of the Company, after being notified in writing by one of the persons mentioned in letter b) above;
- e) the Chairman, the Deputy Chairman (if any and if equipped with operating powers), the Chief Executive Officer, any other director to whom executive powers have been granted and the Chief Operating Officer (if any) of the principal subsidiaries where sensitive information can be generated.

The procedure identifies two different types of sensitive information:

- a) *sensitive information of an ordinary kind*: i.e. information pertaining to an event or set of circumstances relating to activities or transactions falling within the ordinary business administration of the Company or of a Subsidiary, with particular reference to the preparation of accounting statement of financial position, income statement data, whether on an actual or forecasting basis;
- b) *sensitive information of an extraordinary kind*: i.e., information pertaining to a specific event or set of circumstances relating to activities or transactions that do not fall within the ordinary administration of the Company or of a Subsidiary, with particular reference to specific mergers, spin-offs, acquisitions of shareholdings or companies.

Every person registered in the insider register is obliged to maintain confidential all sensitive information they handle or which they have access to until the same has been disclosed to the public in accordance with the principle of equal access to information.

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## **CODE OF CONDUCT**

The Company has adopted its own "Code of Conduct", originally in implementation of the provisions issued by Borsa Italiana S.p.A. with its own regulation and also to take account of the new regulatory provisions issued by CONSOB in execution of European provisions (the so-called Market abuse directive) introduced by the Law on Savings of 2005. It regulates the information to be provided to the Company, and by the latter to the market, on any transactions carried out for any reason on their own account by the 'Relevant persons' concerning Italmobiliare shares, Italcementi shares and other financial instruments linked to them.

Pursuant to the 'Code of Conduct', 'Relevant persons' are the members of the Company Board of Directors, Board of Statutory Auditors and the Chief Operating Officer of Italmobiliare and any person who holds a stake of at least 10% of the share capital of Italmobiliare represented by shares with voting right, and any other person who controls the Company.

In particular, the persons concerned must inform the Company, so that the latter may inform the market, about the performance of transactions on the latter's shares of an aggregate amount exceeding the 5,000 euro threshold by the end of the year.

Given the particular structure of the Group, the 'Code of Conduct' is associated with the Code adopted by Italcementi, in the sense that market disclosures made by Italcementi only regarding transactions on Italcementi shares by parties who are 'Relevant persons' for both Italmobiliare and Italcementi, are considered as made also pursuant to the provisions contained in the Code of Conduct adopted by Company when the disclosure obligations are complied with by the subsidiary, which will take care of the disclosure to the market also on behalf of the parent company.

Moreover, the 'Code of Conduct' envisages that 'Relevant persons' must abstain from performing transactions that are subject to disclosure to the Company:

- on listed financial instruments issued by Italmobiliare:
  - during the 30 calendar days preceding the meeting of the Company's Board of Directors called to approve the separate annual and interim financial statements, including the day on which the meeting is held;
  - during the 15 calendar days preceding the meeting of the Company's Board of Directors called to approve the quarterly reports, including the day on which the meeting is held.
- on financial instruments issued by the listed subsidiary Italcementi S.p.A.:
  - within 30 calendar days prior to the Board of Directors' meeting of Italcementi S.p.A. called to approve the annual and the limited half-year report, including the day on which the meeting is held;
  - within 15 calendar days prior to the Board of Directors' meeting of Italcementi S.p.A. called to approve the interim reports, including the day on which the meeting is held.

## **INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES**

On November 12, 2010, based on the positive opinion of the specifically appointed Committee for Transactions with Related Parties, the Company's Board of Directors adopted the Procedure for Transactions with Related Parties envisaged by the Consob Regulation of March 12, 2010. The procedure has been slightly amended on 2013 with i) the extension of the scope of correlation to the members of the Supervisory Board, with the express clarification that, if it is also made up of employees of the Company, these are not to be considered as "Key management personnel" and ii) the introduction of a different *small-amount thresholds* between transactions with individuals and those with legal entities.

Finally, on November 14, 2014, confirming the commitment of the Company to adhere to best practice and guidelines of the Supervisory Authority, the Board of Directors, at the proposal of the Committee for transactions with related parties, deemed appropriate to make further changes to the Procedure in force which took into account the inspiring guidelines of the regulation and underlying interests. The amendments concern, in particular: 1) the clarification of the definition of an ordinary transaction; 2) identification of some correlation indexes that allow a

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specific monitoring by the Company on transactions carried out with counterparts formally unrelated but that, in substance, could exert influence on the decision-making process; 3) the competence to identify transactions with counterparties having an index of correlation; 4) the provision of a quarterly report to be addressed to the members of the Committee with regard to transactions entered into with counterparties with an index of correlation; 5) the possibility of the Committee to identify - based on indices of significance relating to transactions entered into with counterparties having an index of correlation - the transactions to be submitted in advance to the investigation procedure provided for minor transactions.

Therefore, the Procedure, in compliance with art. 2391-*bis* of the Italian Civil Code, sets out the measures adopted by the Company to ensure that transactions undertaken with related parties and counterparties having an index of correlation, whether directly or through subsidiaries, are carried out transparently and in compliance with criteria of substantial and procedural correctness.

In particular, with the exception of some situations, the Procedure provides for the authorization process and the disclosure requirements for transactions between *i)* a party related to Italmobiliare, on the one hand, and *ii)* Italmobiliare, on the other, or one of its subsidiaries when, before completing the transaction, the prior examination or authorization by a corporate body of Italmobiliare or by an officer of Italmobiliare with relevant delegated powers is required. The Procedure also applies to transactions undertaken by Italmobiliare with a subsidiary or associated company, as well as between its subsidiaries, when the transaction involves significant interests of a related party of Italmobiliare.

The Procedure distinguishes «significant» transactions from «minor» transactions on the basis of specific quantitative criteria predetermined by Consob. This distinction is also relevant for determining applicable rules on transparency, which are simplified for minor transactions and more stringent for significant transactions, although both envisage the prior opinion of the Committee for Transactions with Related Parties.

The Committee has:

- the duty to give and explain its opinion on both minor (non-binding opinion) and significant (binding opinion) transactions;
- the right, for significant transactions, to take part in the negotiations and in the preliminary investigation stage through the receipt of a complete and prompt information flow, and the right to ask for information and to submit its remarks to the delegated bodies and to those in charge of the negotiations or the preliminary investigation;
- the possibility to request the prior examination of the transactions that the Company will enter into with counterparties having an index of correlation, taking into account some indices of significance;
- the right to seek the assistance, at the Company's expense, of independent experts of its choice.

In the case of minor transactions, the Procedure envisages the right, in any case, to execute the transaction even if the Committee for Transactions with Related Parties expresses a negative opinion, provided that this is disclosed to the market through a specific document setting out the reasons for such divergence.

Moreover, the Company By-laws provide that (i) significant transactions with related parties can be performed despite the negative opinion of the Committee for Transactions with Related Parties provided that the execution of such transactions is authorized by the Shareholders' Meeting on condition that the majority of non-related shareholders do not cast a vote contrary to performance of the transaction and the non-related shareholders present at the Shareholders' Meeting represent at least 10% of the share capital with voting rights (so called *whitewash*); and that (ii) the Company may apply the simplified rules in cases of urgency unless the transaction is under the prerogatives of the Shareholders' Meeting and requires its authorization.

Finally, exercising the powers contained in the Regulations issued by CONSOB, the Company identified the following main grounds for exclusion:

- transactions for smaller amounts (transactions that do not exceed the amount of 500,000 euro if carried out with related legal entities and transactions that do not exceed an amount of 300,000 euro if carried out with related private individuals);

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- ordinary transactions (which fall within the ordinary course of business operations and related financial activities of the Company and of the Group in general) if they are concluded on terms equivalent to market or standard conditions;
  - transactions with or between subsidiaries or with associated companies, unless there are *significant interests* of other parties related to the Company in the subsidiaries or associated taking part in the transaction;
  - urgent transactions.

The Procedure is available on the Company's website [www.italmobiliare.it](http://www.italmobiliare.it).

Without prejudice to the provisions contained in the above procedure, transactions with related parties must be carried out transparently and in accordance with criteria of substantial and formal correctness. Therefore, the directors who have an interest, even potential or indirect, in the transaction are required to:

- a) promptly and fully inform the Board about the existence of the interest and the circumstances regarding it;
- b) leave the board meeting room during the vote.

The Board of Directors, however, under specific circumstances, may allow the director concerned to participate in the discussion and/or vote.

## **REGULATION OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING**

As mentioned elsewhere in the Report, the Company, in connection with the provisions of the Law on Savings, appointed a Manager in charge of financial reporting and adopted a specific Regulation which, in compliance with legal provisions, the By-laws and following current best practices, among other things:

- \* defines the responsibilities of the Manager in charge of Italmobiliare and specifies his/her related powers;
- \* identifies the responsibilities and method for the appointment, removal and termination of office of the Manager in charge, the length of service and the requirements in terms of professional skills and good reputation;
- \* reports on the principles of conduct which the Company Manager in charge must comply with in the event of conflicts of interest as well as the confidentiality obligations to be observed in carrying out his/her activities;
- \* indicates the responsibilities, powers, and resources granted to the Manager in charge for the exercise of his/her duties, identifying the financial and human resources needed to carry out the mandate;
- \* defines dealings with other Company bodies/functions, with the Corporate Bodies, the internal and external control Bodies and with subsidiaries, regulating information flows;
- \* illustrates the internal and external attestation process in reference to: a) the statements of the Manager in charge regarding the correspondence of the Company's acts and communications disclosed to the market with its documents and accounting books and entries; b) the statements of the Manager in charge and of the executives, relating to the financial statements, the condensed and interim financial statements and the consolidated financial statements.

The Regulation, approved by the Board of Directors, is intended for all the entities, functions, corporate bodies of Italmobiliare, as well as all the companies that it directly or indirectly controls. The Regulation has been circulated to the staff of the Company, the subsidiaries, as well as to all those considered affected by its contents.

The Board of Directors, at the meeting of May 14, 2013, updated the Regulation so as to give full implementation of the new aspects introduced by the Code of conduct for listed companies (for example, the main amendments refer to the new definitions given to positions, bodies, committees and their tasks, regarding their respective relations with the Manager in charge).

At the same time, the relevant Operational Model was updated at the same time as the Regulation in order to ensure its optimization and simplification.

## **ORGANIZATIONAL, MANAGEMENT AND CONTROL MODEL**

In order to make the control and Corporate Governance systems more effective and prevent corporate offenses and offenses against the Public Administration, during 2004, in application of Legislative Decree no. 231/01, the Company Board of Directors adopted an «Organizational, management and control model» (the «Model»). This was sub-

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sequently updated in 2006 in line with the law on market abuse and failure to disclose a conflict of interest by directors.

By adopting the Model, the Company intends to disseminate and establish a corporate culture based on legality, with the express censure of all conduct contrary to the law and the regulations contained in the Model itself.

There have been numerous amendments and updates in order to reflect legislative actions, which have gradually expanded the scope of Legislative Decree no. 231/01 to include further categories of offenses with respect to those included in its original version.

All updates to the Model, except those of a purely formal nature, have been carried out on the basis of targeted risk assessments performed by consultants specialized in the matters taken into consideration on each occasion.

In particular, in 2008, the Model was extended to offenses relating to the violation of the legislation on health and safety in the workplace (section later revised in 2010), on cross-border offenses and offenses for receiving stolen goods and money laundering. In March 2011 several amendments were approved to better design the information flow system among the various compliance corporate bodies of the Group both in the phase of adoption and amendment of the Models of the subsidiaries and in the phase of communicating any violation of the Model. In October 2012, the Model was extended to offenses related to organized crime, copyright and computer crime and, finally, during 2014, the Model was updated in order to incorporate the new provisions on the prevention and combating of corruption in public administration, corruption between individuals and the use of third-country nationals. The task of continuously monitoring the effectiveness and enforcement of the Model, as well as proposing updates, is entrusted to a body, the Supervisory Board, equipped with autonomy, professionalism and independence in the exercise of its functions and adequate experience in the field of control of risks associated with the specific activities carried out by the Company or their legal aspects.

The Supervisory Board is, in compliance with the provisions of the Model, currently made up of an independent director (later appointed Chairman), a third-party advisor and the Company's Head of Internal Audit.

The General Part of the Model is available on the Company's website in the section *Governance/Documentation*.

## **COMPLIANCE WITH SIMPLIFIED RULES PURSUANT TO ARTICLES 70 AND 71 OF THE ISSUERS' REGULATION**

By resolution adopted on November 14, 2012, the Company's Board of Directors accepted the opt-out regime provided by the CONSOB Issuers' Regulation, exercising the right to waive the obligations to publish disclosure documents required in connection with significant merger transactions, spin-offs, acquisitions and disposals, capital increase by contribution in kind.

On the same date, in accordance with the above-mentioned legislation, the Company provided adequate disclosures to the market.

## **CONSOB REGULATION ON MARKETS**

The Consob Regulation on markets provides for specific rules regarding conditions for the listing of Companies:

- A) that control companies incorporated in, and under the law of, Countries not belonging to the European Union («non-EU») (art. 36)
- B) that are subject to management and coordination activity by another company (art. 37).

In particular, the companies as set out in letter A) are required to:

- 1) disclose the accounts of non-EU subsidiaries drawn up for the purposes of the consolidated financial statements, at least including the statement of financial position and the income statement;
- 2) obtain By-laws, composition and powers of the corporate bodies from the non-EU subsidiaries;
- 3) check that the non-EU subsidiaries:
  - \* provide the parent company's external auditor with the information needed to audit the annual and interim accounts of the parent company,
  - \* have an administrative/accounting system suitable to provide the parent company's management and external

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auditor, on a regular basis, with the statement of financial position and income statement figures needed to draft the consolidated financial statements.

The Companies set out in letter B), on the other hand, may be admitted for trading on an Italian regulated market (or maintain their listing) when they:

- a) have fulfilled the disclosure obligations envisaged by article 2497-*bis* of the Italian Civil Code;
- b) are free to negotiate in dealings with customers and suppliers;
- c) do not have a centralized treasury management agreement which is not in their corporate interest with the company that exercises administration and control activity or with any other company of the group to which they belong. The correspondence with the corporate interest is certified by the Board of Directors with a detailed reasoned statement verified by the Board of Statutory Auditors;
- d) have a Board of Directors composed of a majority of independent directors (pursuant to the Code) and a Control and Risk Committee consisting solely of independent directors. Where appointed, also the other committees, as recommended by corporate governance codes of conduct promoted by regulated market managers or by professional associations, will consist solely of independent directors.

With reference to the provisions set out in art. 36, the scope of application as of today involves 18 subsidiaries, located in 10 Countries not belonging to the European Union.

The information flow between the Company and its subsidiaries is suitable to guaranteeing:

- \* the transmission of the accounts of the subsidiaries drawn up for the purposes of the consolidated financial statements, to enable such accounts to be disclosed;
- \* the centralized collection and storage of the By-laws, composition and powers of the corporate bodies of the above mentioned subsidiaries and any subsequent amendment.

Therefore, all the By-laws of Subsidiaries located in Countries that do not belong to the European Union, which are relevant according to the last Audit plan, as well as the composition and powers of the corporate bodies have been acquired and are stored in the Company records.

Furthermore, the findings thus obtained have revealed that the subsidiaries based in Countries outside the European Union, relevant with respect to the latest Audit plan:

- \* provide the company's external auditor with the information needed to verify the annual and interim financial statements of Italmobiliare,
- \* have an administrative/accounting system suitable to providing the Company and the external auditor, on a regular basis, with the statement of financial position and income statement figures needed to draft the consolidated financial statements.

With reference to the provisions of art.37 mentioned above, however, not being subject to management and coordination of any other company or entity, Italmobiliare is not subject to the obligations laid down therein.

Although Efiarind B.V., pursuant to Art. 2359, paragraph no.1, no.2 of the Italian Civil Code, has a sufficient number of voting rights to exercise a dominant influence in the ordinary Shareholders' Meeting, albeit indirectly, it does not set, nor has it ever set, the Company's strategic policies to follow in the management of its business. The Board of Directors of Italmobiliare, therefore, has always taken its decisions in full autonomy without any interference whatsoever by the relative majority shareholder.