



TXT e-solutions S.p.A.

# 2012 REPORT ON CORPORATE GOVERNANCE AND SHAREHOLDING STRUCTURE

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

Milan - 6 March 2013

Available on [www.txtgroup.com](http://www.txtgroup.com)

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## GLOSSARY

**Code:** the Corporate Governance Code of listed companies approved in March 2006 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. Unless otherwise stated, any Principles, Criteria and Comments mentioned in this document refer to the 2006 edition of the Code.

**2011 Corporate Governance Code:** the Corporate Governance Code of listed companies approved in 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

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

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

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

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

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

**Consob Regulation on markets:** Regulation 16191/2007 (and subsequent amendments) concerning markets issued by Consob.

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

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

**Consolidated Law on Finance (*Testo unico finanziario*, TUF):** Legislative Decree no. 58 dated 24 February 1998.

## 1. ISSUER'S PROFILE

This report illustrates the Corporate Governance system adopted by TXT e-solutions S.p.A. (hereinafter the "Company") and its compliance with the Corporate Governance Code of listed companies (hereinafter the "Code") as amended in March 2006 and December 2012 pursuant to Article 124-bis of the Consolidated Law on Finance, Article 89-bis of the Consob Issuers' Regulation and Article IA.2.6 of the Instructions accompanying Borsa Italiana S.p.A.'s Rules.

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

Corporate bodies are listed below:

- Shareholders' Meeting;
- Board of Directors;
- Remuneration Committee;
- Risks and Internal Controls Committee;
- Board of Statutory Auditors.

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

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

The Remuneration Committee is constituted by Board members and has consultative and advisory functions. In particular, it puts forward opinions and proposals to the Board of Directors concerning the remuneration of company executives and management charged with strategic responsibilities.

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

The Board of Statutory Auditors is responsible for ensuring compliance with the law and the Company's By-Laws. Is not assigned with the task of checking company accounts, which is the responsibility of External Auditors, registered in a specific Register. The latter are vested with the power to verify, during the reporting period, that company books are properly managed, accounting items are correctly recorded and statutory and consolidated financial statements are in line with accounting entries and audit performed, and that all accounting documents are compliant with relevant regulations.

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

A copy of the annual report is available at the Company's registered office and on the website [www.txtgroup.com](http://www.txtgroup.com) under the "Governance > Corporate Governance Reports" section.

## **2. INFORMATION ON THE SHAREHOLDING STRUCTURE (Article 123-bis, paragraph 1 of the Consolidated Law on Finance) as at 31 December 2012**

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

The Company's share capital is fully made up by ordinary shares. As at 31 December 2012, the subscribed and paid-in share capital was equal to € 2,883,466.00, broken down into 5,766,932 shares with a par value of €0.50 each.

The share capital increased from € 1,366,519.50 at 31 December 2011 to € 2,883,466.00 at 31 December 2012. The number of shares increased from 2,733,039 to 5,766,932 as a result of the transactions described below.

The Shareholders' Meeting held on 23 April 2012 approved a resolution concerning a free-of-charge share capital increase involving the issue of one new ordinary share with a par value of € 0.50, cum dividend, for every share held, by using the share premium reserve. Shares became cum dividend since 1 January 2012. The 2,733,039 new shares issued have become effective on the Stock Market as from 28 May 2012.

The Shareholders' Meeting held on 6 December 2012 approved a resolution concerning a share capital increase, against payment, without any option right, by issuing 238,854 new ordinary shares, with a par value of € 0.50 each, reserved for Maple Lake Ltd.'s shareholders, through a contribution in kind of 5,051,544 Maple Lake Ltd.'s common shares. Maple Lake Ltd.'s shareholders have committed not to sell their shares until 31 December 2013. This commitment has been obtained by TXT in order to guarantee minimize volatility of TXT share price in the period after the capital increase. This commitment aligns Sellers's interest to other Shareholders' toward the maximization of TXT group value.

During 2012, a total of 62,000 new ordinary shares were issued, with a par value of € 0.50 each, cum dividend, under the 2008 stock option plan after vesting conditions were met.

The Company's stock option plan entails share capital increases, as described in the annual report and in the disclosure document prepared pursuant to Article 84-bis) of Consob Issuers' Regulation (available on the Company's website [www.txtgroup.com](http://www.txtgroup.com)) In addition, the Shareholders' Meeting of 23 April 2012 approved a stock grant plan envisaging the allocation of a maximum of 510,000 shares to the Company's top managers, dependent on achieving specific performance goals, which may be assigned by the Board of Directors in three three-year tranches, with the Plan ending by 30 June 2017.

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

There are no share transfer restrictions.

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

In accordance with the communications made pursuant to Article 120 of the Consolidated Law on Finance, the Company's shareholdings above 2% are the indicated in Table 1.

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

No shares with special controlling interests have been issued.

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

There are no plans involving employees in the company shareholding structure except as those described at point a) above.

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

There are no restrictions to voting rights.

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

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

h) Change of control clauses (Article 123-bis, paragraph 1, letter h), of the Consolidated Law on Finance) and statutory provisions on takeover bids (Articles 104, paragraph 1-ter, and 104-bis, paragraph 1)

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

i) Power to increase share capital and authorization to purchase treasury shares (Article 123-bis, paragraph 1, letter m), of the Consolidated Law on Finance)

The Extraordinary Shareholders' Meeting held on 25 July 2008 approved a resolution concerning a share capital increase in one or more instalments, pursuant to Article 2441, paragraph 4, last sentence, of the Italian Civil Code, through the issue, in one or more tranches, of ordinary shares with a par value of € 0.50 each, cum dividend, reserved to directors and executives of the Company and TXT Group Companies, who are the beneficiaries of the stock option plan approved by the Ordinary Shareholders' Meeting held on the same date.

Furthermore, the Shareholders' Meeting provided the Board with the power to identify the plan beneficiaries who are reserved the right to subscribe newly issued shares, as well as the procedures and deadlines for assigning the options, and the subscription price.

In any case, said price cannot be lower than the average value of the TXT e-solutions S.p.A. share, equal to

the arithmetic average of the ordinary share official price for each day of actual listing, as recorded during the period between the stock option plan granting date and the same day of the previous month. Following partial implementation of the stock option plan, the share capital increase can still be carried out through the issue of 149,000 shares.

On 23 April 2012 the Shareholders' Meeting approved a stock grant plan for managers with strategic and key roles within the Company and the Group, up to a maximum of 510,000 ordinary shares, to be performed by the assignment of treasury shares.

On 23 April 2012 the Company's Shareholders' Meeting revoked the previous authorisation to purchase treasury shares and empowered the Board of Directors to proceed, also through delegated members, pursuant to Article 2357 of the Italian Civil Code, with the purchase, in one or more tranches, for a period of 18 months since the resolution, of TXT e-solutions S.p.A. ordinary shares up to the legal maximum amount of 20% of the share capital. The minimum payment for the purchase must not be less than the par value of TXT e-solutions S.p.A. shares, and the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00 (twenty-five/00), as re-determined following the free-of-charge share capital increase approved by the Shareholders' Meeting on the same date.

In addition, the Shareholders' Meeting authorised the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, to use – also through delegated members, at any time, in whole or in part, in one or more tranches and also before completing the purchases – the treasury shares purchased on the basis of this resolution, through their disposal on the market, by virtue of the stock option and stock grant plans approved by the Shareholders' Meeting, and, finally, as payment for the purchase of equity investments and/or entering into agreements within the Company's investment policies. As necessary and in compliance with the legal and regulatory provisions, the Board can establish the suitable deadlines, means and conditions, without prejudice to the fact that the disposal of the shares may take place for a minimum payment that is no less than the par value of such shares.

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

At the end of the reporting period 593,500 treasury shares are recognised in the Company's financial statements, equal to 10.29% of the share capital, for a total par value of € 296,750 and a market value of € 3,739,050. This purchase was made possible by using the share premium reserve for an amount equal to the value of the treasury shares purchased. During 2012, 207,500 treasury shares were purchased at an average price of € 5.05 and 30,000 treasury shares were sold at an average price of € 5.20.

## I) Management and coordination activities (Article 2497 et seq. of the Italian Civil Code)

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

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It should be noted that:

- disclosures pursuant to Article 123-bis, first paragraph, letter i) ("agreement between the Company and Directors [...] that include indemnity in the event of resignation or dismissal without just cause or in the event their term of office ends as a consequence of a takeover bid") are provided in the Remuneration Re-

port, published pursuant to Article 123-ter of the Consolidated Law on Finance;

- disclosures pursuant to Article 123-bis, first paragraph, letter l) ("provisions applicable to the appointment and replacement of Directors [...] as well as to the amendment of the By-Laws, if different from the relevant supplementary legal and regulatory provisions") are provided in the Board of Directors' Report (Section 4.1).

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

The Company adopted the Corporate Governance Code for listed companies approved by the Corporate Governance Committee in March 2006 (and subsequent amendments) promoted by Borsa Italiana S.p.A. The Code is available to the public on Borsa Italiana's website ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

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

## **4. BOARD OF DIRECTORS**

### **4.1. APPOINTMENT AND REPLACEMENT (Article 123-bis, paragraph 1, letter l), of the Consolidated Law on Finance)**

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

If one or more members leave office during the financial year, those remaining in office replace them through a resolution approved by the Board of Statutory Auditors, as long as the majority of Board members is appointed by the Shareholders' Meeting. If the leaving members had been appointed by minorities (as hereafter defined), the new members will be chosen by the Board from among those belonging to the leaving members' minority list. The new members will hold office until the next Shareholders' Meeting.

Based on Article 147-ter, paragraph 1, of the Consolidated Law on Finance, the Company's By-Laws do not provide that lists that did not receive at least half of the votes required for the submission pursuant to the By-Laws are not taken into account for the allocation of Board positions.

Board Members are appointed by the Shareholders' Meeting on the basis of lists in which candidates must be progressively included. Shareholders who, alone or together with other shareholders, reach at least the share capital percentage provided for by the law or by Consob pursuant to Article 147-ter, paragraph 1, of the Consolidated Law on Finance (currently at 4.5%) have the right to submit the lists. Each shareholder can submit, or participate with other shareholders in the submission of, only one list and each candidate can stand in only one list, under penalty of being ineligible as a candidate. Lists shall be deposited at the Company's registered office at least 25 days before the date fixed for the Shareholders' Meeting. Within the above-mentioned deadlines, each list must also be submitted together with the declarations in which individual candidates accept their candidacy and certify the absence of ineligibility and incompatibility reasons and the possession of relevant regulatory requirements, the candidate's CV and the existence of any independence requirements pursuant to Article 148, paragraph 3, of the Consolidated Law on Finance.

The lists shall be deposited at the issuer's offices 25 days before the date fixed for the Shareholders' Meeting resolving on the appointment of Board of Directors' members and they shall be available to the public at the Company's registered office, on its website, and by any other means provided for by Consob regulation at least 21 days before the date fixed for the Shareholders' Meeting. The minimum shareholding necessary

to the submission of lists is based on the number of shares held by the Shareholder upon their submission. Related certification may be provided after the deposit but within the deadline scheduled for the publication of lists by the issuer. The lists must show which candidates comply with the independence requirements provided for by the law. Each person entitled with the voting right can vote for just one list.

The appointment of Directors is as follows:

- in the event that more than one list is submitted:

a) the four-fifth of Board members are selected from the list that received the highest number of votes, on the basis of the list progressive order and rounding to the lower unit, in case of decimals;

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

- in the event that only one list is submitted:

directors are selected from the only submitted list, on the basis of the list progressive order until the number of directors provided for by the Shareholders' Meeting is reached;

- in the event that no list is submitted or the number of elected candidates is not sufficient with respect to the number of directors provided for by the Shareholders' Meeting:

directors are appointed by the Shareholders' Meeting through a resolution passed by the majority provided for by the law.

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

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

The Board of Directors has not appointed, within the Board itself, any Nomination Committee, since such function is directly performed by the Board, taking into account the shareholding structure and Board composition.

At its meeting of 10 May 2012 the Board of Directors decided not to adopt a succession plan for executive directors (Criterion 5.C.2).

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

In accordance with the Company's By-Laws, the Board of Directors has a minimum of 3 and a maximum of 9 members, pursuant to the resolution passed by the Ordinary Shareholders' Meeting upon appointment.

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

All members of the Board of Directors have been elected by the Shareholders' Meeting held on 20 April 2011

and shall remain in office up until the approval of the Financial Statements as at 31 December 2013.

On 10 May 2012 the Executive Director Paolo Matarazzo, who was elected during the aforementioned Shareholders' Meeting from the minority list, resigned.

At its meeting of 10 May 2012, the Board of Directors co-opted Teresa Cristiana Naddeo, in the absence of other candidates on the minority list submitted to the Shareholders' Meeting of 20 April 2011 and in compliance with the provisions of Article 15 of the By-Laws and Article 2386 of the Italian Civil Code and subject to the Board of Statutory Auditors' agreement.

The Shareholders' Meeting held on 6 December 2012 appointed Teresa Cristiana Naddeo as Director. She was born in Turin on 22 May 1958; her mandate will end at the same time as that of the other directors in office and, thus, with the approval of the financial statements for the year ending 31 December 2013. For 2012, on a *pro-rata temporis* basis, the Shareholders' Meeting approved the same fee as already approved for the other directors by the Shareholders' Meeting of 23 April 2012. The rules governing the list appointment procedures did not apply to the appointment made during the Shareholders' Meeting of 6 December 2012, dealing with the substitution of a serving Board member.

On the basis on her declarations and the assessment made by the Board of Directors during the co-opting stage, Teresa Cristiana Naddeo complies with all the requirements of respectability, professionalism and independence required by the law, the By-Laws and the Corporate Governance Code.

During the Shareholders' Meeting held on 20 April 2011, two lists were submitted. The majority list was submitted by E-business consulting SA, with the name of Franco Cattaneo (independent board member, elected). The minority list was submitted by Alvisè Braga Illa, with the following names: Alvisè Braga Illa, Paolo Enrico Colombo, Marco Edoardo Guida, Adriano De Maio (independent board member), Paolo Matarazzo (resigning on 10 May 2012) and Andrea Cencini (they were all elected). No connections between the lists exist. The majority list received 63.08% of the votes and the minority list 36.89%

On 20 April 2011, the Board of Directors appointed Alvisè Braga Illa as Chairman and Mr Marco Edoardo Guida as Chief Executive Officer.

The Directors Alvisè Braga Illa, Marco Edoardo Guida, Adriano De Maio, Franco Cattaneo, and Paolo Enrico Colombo, elected by the Shareholders' Meeting held on 20 April 2011, were already Directors.

The professional curriculum of each director (Article 144-decies of Consob Issuers' Regulation) is provided below:

### **Alvisè Braga Illa**

Born in Segovia (Spain) on 12 December 1939.

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

### **Marco Guida**

Born in Milan on 12 September 1961.

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

### **Franco Cattaneo**

Born in Trieste on 11 July 1939.

Mechanical Engineering graduate. PMD at Harvard Business School (USA).

Professional background: Chief Executive Officer of Jucker (Italy), Chief Executive Officer and General Manager of Pomini S.p.A. (leading engineering company); Chairman of Ing. Leone Tagliaferri & C. S.p.A. (furnace manufacturer); Chief Executive Officer of Jucker in 1993; Chief Executive Officer of Cotonificio Roberto Ferrari S.p.A.; Vice Chairman of ACIMIT (Italian association of companies producing machinery for the textile industry); Executive Chairman of Savio Macchine Tessili S.p.A.; Senior Executive Director of Caretti & Associati S.p.A. from 1999 to 2004; Chief Executive Officer of Aprilia S.p.A. in 2004; Independent Director and member of the Remuneration, Control and Risk Committee of Interpump Group S.p.a. since 2005;

### **Adriano De Maio**

Born in Biella on 29 March 1941.

After graduating in Engineering from Politecnico di Milano in 1964, Mr De Maio started his teaching and scientific career at Politecnico. Full Professor of Economy and Management of Corporate Innovation at the Economics Faculty of the LUISS Guido Carli University. Until 1994, Mr De Maio was director and member of Faculty of MIP (Politecnico di Milano) and manager of the Technological Innovation Management and Project Management division. In 1994, Mr De Maio was Dean at Politecnico and held office until 2002. In February 2004, Mr De Maio was awarded an *ad honorem* degree in Engineering by Ecole Centrale de Paris. From 2002 to 2005, Mr De Maio was Dean at the Luiss Guido Carli University.

From 1996 to 2010 he served as Chairman of IRER (Research Institution in Lombardy). In 2003 and 2004, he was appointed as Extraordinary Commissioner at CNR. From 2005 to 2008, Mr De Maio was in charge of High-level education, research and innovation after appointment of the President of the Lombardy Region. Currently he is a Full Professor of Complex Project Management at Politecnico di Milano. Chairman of CEN (European Centre for Nanomedicine) and Green High Technology in the province of Monza e Brianza.

Board Member in Saes Getters Spa, Telecom Italia Media Spa, EEMS S.p.A.

### **Paolo Enrico Colombo**

Born in Milan on 29 February 1956.

Electronic Engineering Graduate. Mr Colombo has been a consultant in several software companies until 1984. In TXT, Mr Colombo has managed the Agusta Group and, in 1988, was appointed as Account Manager of TXT e-solutions, with the task of developing the Aerospace & Defence sector. In 1990, Mr Colombo was assigned the task of creating a new business unit focusing on turn-key software development and consultancy services. Mr Colombo is currently the Manager of the TXT Next division.

### **Andrea Cencini**

Born in Tolmezzo (UD) on 7 June 1963.

After graduating in IT, he was assigned the task of designing and developing new network monitoring systems at a leading IT company. He joined TXT e-solutions in 1989 holding increasingly high-profile positions, managing the CRM and e-business BUs. Currently, Mr Cencini is the Manager of the TXT Perform Division.

### **Teresa Cristiana Naddeo**

Born in Turin on 22 May 1958.

After graduating in Economics and Commerce from the Turin University, she acquired long-term experience

on the Italian and international financial markets. In recent years Ms Naddeo has worked in the Zenit Group's brokerage and asset management companies, with significant operating and managerial responsibilities and as a director. Previously, Ms Naddeo had joined Arthur Andersen, reaching senior levels; she performed the audit and certification of financial statements of large Groups in the banking, financial, television and media industries. Ms Naddeo is active in numerous professional and civic associations and foundations, and is registered in the Roll of Chartered Accountants and Auditors of Milan.

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

The Board of Directors shall act and decide autonomously, having full knowledge of the facts, and pursue the objective of creating value for the shareholders – an essential requirement for a profitable relation with the financial market. All the directors devote the necessary time to the diligent performance of their duties, being aware of the responsibilities pertaining to their office.

The Board has not set any specific criteria regarding the maximum number of management and control positions that can be held with other companies.

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

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

#### 4.3. ROLE OF THE BOARD OF DIRECTORS (Article 123-bis, paragraph 2, letter d) of the Consolidated Law on Finance)

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

The Board oversees the examination and the approval of (*Criterion 1.C.1. letter a*):

- the strategic, industrial and financial plans of the Company;
- the strategic, industrial and financial plans of the group headed by the Company;
- the Company's corporate governance;
- the structure of the Group headed by the Company.

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

1. gives and revokes the CEO's mandates (if any) by defining his/her operational environment and powers;
2. undertakes commitments which are not included in the ordinary management of the Company and previously approved budgets;
3. determines the remuneration of the Chairman of the Board of Directors after examining the Remuneration Committee's proposal and after consulting with the Board of Auditors;
4. examines and approves transactions having a significant impact on the Company's profitability, assets and liabilities or financial position and resolves upon the acquisition and disposals of stakes, companies or business branches; preventively assesses real estate transactions and disposal of strategic assets;
5. defines the guidelines and identification parameters of the most significant transactions, also involving related parties;

6. oversees general operating performance on the basis of information received from the General Manager and the Risks and Controls Committee;
7. establishes the Company's and the Group's structure and checks their adequacy;
8. reports to the shareholders at the Shareholders' Meeting.

During the financial year 2012, the Board of Director held 7 meetings with an average duration of 3 hours. 5 meetings have been scheduled for the financial year 2013, none of which before 6 March 2013.

The Chairman organizes all the Board activities ensuring that Directors are promptly provided with all documentation and information necessary to take any decision. In order to ensure that all the Directors make informed decisions and that a proper and complete assessment of the agenda is performed, all documentation and information – and in particular periodical reports – shall be made available to the Board members a few days before the meeting. In certain circumstances, depending on the kind of the decisions to be taken, on confidentiality requirements or critical timing, some restriction to prior disclosure could apply.

The Company's auditors and occasionally other external members may join any Board meeting with the aim of providing in-depth analysis on the issues on the agenda.

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

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

The Board assessed the Company's general management, taking into account, in particular, the disclosure provided by the delegated bodies, and periodically compared the actual results with respective targets (*Criterion 1.C.1., letter e*). The Board preventively examined and approved the transactions having a significant impact on the strategies, profitability, assets and liabilities or financial position of the Company and its subsidiaries (*Criterion 1.C.1., letter f*).

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

The Board assessed the size, composition and functioning of the board itself and of its committees, suggesting, if necessary, which professionals may be useful in the Board (*Criterion 1.C.1., letter g*). At the meeting of 10 May 2012, following the resignation of the executive director Paolo Matarazzo, the Board assessed its composition and arranged to co-opt a new, non-executive and independent director: Ms Teresa Cristiana Naddeo.

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

## 4.4. DELEGATED BODIES

### Chief Executive Officer

At the Board of Directors' meeting of 20 April 2011 Marco Edoardo Guida was confirmed as Chief Executive Officer, a position which he has been holding since 1 January 2009. During this meeting the powers already conferred during the Board of Directors' meeting of 15 May 2008 were also confirmed. He is entitled to exercise, with sole signature, the following powers involving the Company's ordinary management, in any case reporting to the Board of Directors according to legal provisions:

1. sign in the name and on behalf of the Company, sale and purchase agreements and lease agree-

- ments, including financial leases concerning movables, even those registered in public registers, tenders, creditors agreements; act as a principal or agent in agency or sub-agency agreements and appoint agents;
2. participate in bids, tenders, public and private auctions to the end of providing works and services of all types; sign supply and service contracts; take part in the related tenders, with regard to any public administrations;
  3. sign quotations and accept purchase orders on behalf of the Company;
  4. open and close bank accounts, apply for loans and credit lines with ordinary credit institutions of any entity and nature, on a medium-long term basis, and sign all the documents requested by the aforementioned credit institutions for completing said applications; accept the related contract clauses;
  5. collect payments and values due to the Company for any reason by any entity as well as by Administrations belonging to the State, Regions, Provinces and Towns; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction pertinent to the use of loans provided by banks and in particular endorse any commercial bill for discount and collection and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, *Cassa Depositi e Prestiti*, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising receipts and pledges;
  6. represent the Company before any Administrative Authority, sign and submit petitions, appeals, minutes concerning any subject; file administrative and court cases in relation to bankruptcy proceedings, creditors agreements and moratoria; sign tax declarations and certifications;
  7. appoint, employ, promote, suspend and dismiss staff, including managers;
  8. sign contracts aimed at forming Associations, temporary business associations, consortia for participating in tenders promoted by both private and public bodies;
  9. appoint attorneys-at-law and delegates to whom transfer, in whole or in part, said functions;
  10. sign on behalf of the Company, by virtue of his signatory powers, all deeds concerning above-mentioned issues, by adding the corporate name before the signature.

### Chairman

The Chairman of the Board has been entitled with special tasks on corporate strategy and communication, institutional relations as well as all the powers regarding the Company's ordinary and extraordinary management, except for the purchase and sale of real estate property.

The Chairman reports to the Board of Directors on the activities performed providing, from time to time, adequate disclosure to update the Board of Directors on atypical or unusual transactions or on transactions with related parties whose examination and approval are not reserved to the Board of Directors.

The Chairman shall not be the same person appointed as the Issuer's Chief Executive Officer, nor shall he be the controlling Shareholder.

At the meeting of the Board of Directors of 20 April 2011 the following powers were conferred on the Chairman, Mr Braga Illa, which had already been conferred at the meeting of the Board of Directors of 15 May 2008:

1. perform, in the name and on behalf of the Company, all the ordinary and extraordinary operations, except for purchase and sale of real estate property; in particular, for example, but not limited to:
2. release grants, securities and guarantees in general, in the name of the Company;

3. sign in the name and on behalf of the Company, sale and purchase agreements and lease agreements, including financial leases concerning movables, even those registered in public registers, tenders, free loans, lease agreements concerning real estate property; act as a principal or agent in agency or sub-agency agreements and appoint agents;
4. participate in bids, tenders, public and private auctions to the end of providing works and services of all types;
5. open and close bank accounts, apply for loans and credit lines with ordinary credit institutions of any entity and nature, on a medium-long term basis, and sign all the documents requested by the aforementioned credit institutions for completing said applications; accept the related contract clauses;
6. collect payments and values due to the Company for any reason by any entity as well as by Administrations belonging to the State, Regions, Provinces and Towns; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction pertinent to the use of loans provided by banks and in particular endorse any commercial bill for discount and collection and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, *Cassa Depositi e Prestiti*, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising receipts and pledges;
7. represent the Company before any ordinary, special, national, regional and administrative Authority; sign and submit petitions, appeals, minutes concerning any subject, file administrative and court cases; take part in creditors agreements and bankruptcy procedures; appoint lawyers and *ad lites* attorneys, before any court, including with enforcing powers, in any stage and instance; settle disputes through formal and informal arbitration and as an arbitrator; appoint arbitrators; sign tax declarations and certifications;
8. represent the Company during any import or export transaction, Customs formalities, before the Bank of Italy or the Ministry of Foreign Trade;
9. appoint, employ, promote, suspend and dismiss staff, including managers;
10. sign contracts aimed at forming Associations, temporary business associations, consortia for participating in tenders promoted by both private and public bodies; subscribe or purchase stocks or shares of companies of any nature;
11. appoint attorneys-at-law and delegates to whom transfer, in whole or in part, said functions;
12. apply for patents for inventions or trademarks; sign the relevant licence contracts, waive or withdraw patent applications;
13. subscribe interest-bearing or non-interest-bearing financing contracts with subsidiaries or associated companies; represent the Company during both ordinary and extraordinary shareholders' meetings;
14. sign on behalf of the Company all deeds concerning above-mentioned issues, and all the ordinary and extraordinary deeds, mentioned by way of example and not limitation, by adding the corporate name before the signature. The Chairman shall not be the same person appointed as the Company's Chief Executive Officer, nor shall he be the controlling Shareholder.

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

No Executive Committee has been established.

### Disclosure to the Board of Directors

The delegated bodies reported to the Board on the activity performed with regard to the powers assigned to

them on a quarterly basis.

## 4.5. OTHER EXECUTIVE DIRECTORS

The Board of Directors comprises two more members (Andrea Cencini, Manager of the TXT Perform Division, and Paolo Colombo, Manager of the TXT Next Division) who shall be deemed executive directors by virtue of the managing responsibilities held with the Issuer and its strategically significant subsidiaries (*Criterion 2.C.1*).

Initiatives aimed at increasing knowledge of the corporate situation and trends are implemented upon the director's request (*Criterion 2.C.2*).

## 4.6. INDEPENDENT DIRECTORS

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

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

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

The three non-executive directors qualify as independent (Adriano De Maio, Franco Cattaneo and, since 10 May 2012, Teresa Cristiana Naddeo).

In compliance with the provisions of Article 3.P.1 of the Code, Independent Directors:

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

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

The Board of Directors assessed the independence of the non-executive directors by considering, among other things, the primacy of substance over form (*Criterion 3.C.1. and 3.C.2*), and making use not only of information provided by those concerned, but also of all information available to the Company; it therefore confirmed as independent directors Franco Cattaneo, Adriano De Maio and Teresa Cristiana Naddeo. In relation to Adriano De Maio, director of TXT e-solutions S.p.A. for over nine years, the Board of Directors assessed his independence focusing more on substance rather than on form; it considered the participation in the Board by the independent directors as adequate, both in terms of quantity (number of independent directors in relation to the size of the Board and the needs of the internal committees), and in terms of quality (standing and professional experience) (*Criterion 3.C.3*).

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

During the financial year the independent directors did not meet in the absence of the other directors (*Criterion 3.C.6.*), except for the meetings of the Remuneration Committee and of the Risks and Internal Controls Committee, of which they are exclusive members.

#### 4.7. LEAD INDEPENDENT DIRECTOR

From 1 January 2009 the role of Chairman of the Board of Directors has been split from the role of Chief Executive Officer. The Board of Directors decided to cancel the role of Lead Independent Director, which was previously held by Adriano De Maio.

### 5. PROCESSING COMPANY INFORMATION

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

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

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

The Chairman of the Board of Directors shall oversee compliance with the provisions of company disclosure regulations by arranging and coordinating all related intervention of internal structures. In light of the low degree of complexity of the Company's structure and its operating scope, the Board has not adopted internal procedures for the disclosure of price-sensitive information to date.

Code of Conduct on Internal Dealing. The adoption in Italy of the 2003/6/EC directive on market abuse was governed by Articles 152-sexies et seq. of the Consob Issuers' Regulation no. 11971, amended with resolution no. 15232 of 29 November 2005. The Company has adopted a code of conduct on Internal Dealing, concerning the transactions performed by "relevant persons" in relation to the listed financial instruments of the Company.

According to the Code of Conduct provisions, the Company shall notify to the market the transactions performed by each relevant person whose global amount is equivalent to or higher than € 5.000 per person. Such notification shall be made within five trading days subsequent to the end of the transaction.

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

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

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

## 7. NOMINATION COMMITTEE

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

## 8. REMUNERATION COMMITTEE

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

The Board of Directors has formed a Remuneration Committee (Committee for the definition of emoluments) from within its members through resolution dated 8 June 2000. It includes three members, all independent, non-executive directors (*Principle 7.P.3*).

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

The Remuneration Committee is composed by three independent non-executive directors (Franco Cattaneo, Adriano De Maio and, since 9 August 2012, Teresa Cristiana Naddeo) (*Principle 7.P.4*). The Chairman of the Committee is Franco Cattaneo.

During the year 2012 the Committee held three meetings (on 5 May, 7 November and 10 December) of an average duration of one hour. The members of the Board of Statutory Auditors are also required to take part in the Remuneration Committee's meetings. Each director's participation is shown in Table 2 attached to this Report. Three meetings have been scheduled for 2013. The first 2013 meeting was held on 1 March 2013.

Directors should not participate in meetings held to discuss and submit to the Board their own remuneration (*Criterion 7.C.6*).

Other non-members had been invited to join the meetings of the Remuneration Committee (*Criterion 5.C.1., letter f*).

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

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

The Committee's specific goal is to provide the Board with the most appropriate guidelines and means to set top managers' remuneration and verify that the parameters adopted by the Company for defining remuneration of employees, including managers, are correctly set and applied, also with a view to relevant market standards and Company's growth targets. The Remuneration Committee submits to the Board its proposals on the remuneration of the Chief Executive Officer and Directors holding particular positions, monitoring the application of the decisions adopted by the Board (*Criterion 7.C.3*).

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

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

The remuneration of executives and directors with strategic responsibilities is set in order to align their interests with the priority goal of increasing value for shareholders in the medium and long period. As for directors with managing roles or dealing in general with the company management, or as for managers with

strategic responsibilities, a large part of their remuneration is connected to the achievement of specific performance benchmarks, which may also be of a non-economic nature. These objectives have been determined and indicated beforehand in compliance with the general company policy guidelines of the Corporate Governance Code.

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

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

a) it periodically assesses the adequacy, general consistency and effective application of the general remuneration policy of executive directors, directors who cover particular offices and managers with strategic responsibilities, based on the information provided by the CEO. It also submits proposals on the issue to the Board of Directors;

b) it submits proposals on remuneration of the executive directors and of other directors who cover particular offices to the Board of Directors. It also submits proposals on the determination of performance benchmarks relating to the variable component of the remuneration of these directors. It also monitors the relevant decisions of the Board, especially regarding the achievement of the performance goals.

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

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

Minutes of Remuneration Committee meetings are duly taken and filed (*Criterion 5.C.1, letter d*).

As part of its mandate, the Remuneration Committee has access to company information and offices to the end of performing its functions, within the limits set by the Board (*Criterion 5.C.1, letter e*).

## 9. REMUNERATION OF DIRECTORS

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

In relation to top management, standard remuneration is adopted for Company's managers who are also shareholders and those who are not shareholders, and executive members of the Board; furthermore, remuneration is divided between a fixed and a variable component, the latter being connected to the achievement of specific personal and company objectives, to the end of aligning remuneration to normal market values (*Criterion 7.C.1*).

Stock options and stock grants plans are set in favour of executive directors and directors with strategic responsibilities, except for the Chairman.

Non-executive directors' remuneration is not connected to the economic results achieved by the Issuer; it is based on a fixed amount decided by the Shareholders' Meeting. Non-executive directors are not involved in stock options incentive plans (*Criterion 7.C.2*).

Non-executive directors who are also independent Directors at TXT are not involved in stock options incentive plans (*Criterion 7.C.2*).

The Shareholders' Meeting held on 23 April 2012 approved the Directors' Remuneration Report prepared by the Board of Directors.

**Directors' indemnity in the event of resignation, dismissal or end of the term of office following a takeover bid** (Article 123-bis, paragraph 1, letter i), of the Consolidated Law on Finance)

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

An end-of-term indemnity equal to 25% of the fee for particular offices accrued each year was confirmed by the Shareholders' Meeting held on 20 April 2011 in favour of the Chairman of the Board of Directors. It shall be paid when his term of office as Member of the Board of Directors ends.

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

## 10. RISKS AND INTERNAL CONTROLS COMMITTEE

The Company has set up a Risks and Controls Committee (*Principle 8.P.4*).

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

The Risks and Internal Controls Committee is constituted by three independent non-executive Directors (Franco Cattaneo, Adriano de Maio and, since 9 August 2012, Teresa Cristiana Naddeo) (*Principle 8.P.4*) (*Criterion 5.C.1, letter a*). The Chairman of the Committee is Adriano De Maio.

The Risks and Internal Controls Committee met three times in 2012 (on 5 March, 7 May and 6 November). Besides its members and the Manager responsible for internal control, the Committee meetings were also attended by the Statutory Auditors. At least two meetings have been scheduled for 2013. The first 2013 meeting was held on 1 March 2013.

At least one member of the Risks and Internal Controls Committee has experience in accounting and finance issues deemed to be suitable by the Board upon appointment (*Principle 8.P.4*).

Under invitation of the Committee, non-members have taken part in the Risks and Internal Controls Committee's Meetings (*Criterion 5.C.1, letter f*).

### Functions of the Risks and Internal Controls Committee

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

- a) assist the Board of Directors in identifying the guidelines of the internal control and risk management system and verify that such system is suitable and effective from time to time, in order to ensure that the main corporate risks are adequately identified and managed (*Criterion 8.C.1*);
- b) assess the work-plan submitted by the Manager responsible for Internal Control and regularly receive reports from the latter (*Criterion 8.C.3, letter c*);
- c) report to the Board of Directors, at least every six months, on the occasion of the approval of the year-end financial statements and the half-yearly report, on the adequacy of the internal control and risk management system (*Criterion 8.C.3, letter g*);
- d) assess the position and ensure the effective independence of the Manager in charge of the Internal Control and Risk Management System, based on the provisions of Legislative Decree 231/2001 on the corporate administrative liability;
- e) assess the Complaints Management Procedures and with the assistance of the Manager in charge of the Internal Control and Risk Management System, examine complaints in order to ensure that the internal control and risk management system is adequate (*Criterion 8.C.3, letter e*);
- f) assess, with the support of the administrative department and the external auditors:
  - i) suitability of accounting standards applied (*Criterion 8.C.3, letter d*); and

- ii) consistency with standards used for drafting the consolidated financial statements (*Criterion 8.C.3, letter a*);
- g) assess, with the assistance of the Internal Control and Risk Management System, the manager of the administrative functions and of Internal Audit, the proposals submitted by the External Auditors applying for the audit position, advising the Board on the issue which shall be submitted to the Shareholders' Meeting by the latter.

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

The Chairman and the other members of the Board of Statutory Auditors have taken part in the Risks and Internal Controls Committee meetings (*Criterion 8.C.4*).

Minutes of the Risks and Internal Controls Committee Meetings are duly taken and filed (*Criterion 5.C.1., letter d*).

As part of its mandate, the Risks and Internal Controls Committee has access to company information and offices and can appoint external consultants to the end of performing its functions, within the limits set by the Board (*Criterion 5.C.1., letter e*).

## 11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Pursuant to Article 8.P.1. of the Code, such system may be defined as "the set of rules, procedures and organisational structures aimed at making possible, through appropriate identification, measurement, management and monitoring of the main risks, an effective and correct management of the Company, consistent with pre-set goals".

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

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

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

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

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

The aims of the financial reporting process are the accuracy, reliability, trustworthy and timeliness of the information disclosure. Risk management is an integral part of the internal control system. The periodic assessment of the internal control system on the financial reporting process aims to verify that the components of the COSO Framework (control environment, risk assessment, control activities, information and communication, monitoring) are properly working together to achieve these objectives. The Company has implemented administrative and accounting procedures that ensure high standard reliability of the internal control on financial reporting.

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

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

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

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

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

## 11.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On 8 March 2010 the Board of Directors appointed the CEO Marco Guida as the Executive Director in charge of the internal control system (*Criterion 8.C.1, letter b*).

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

- together with the Supervisory Board, he was in charge of identifying the main corporate risks, taking into account the features of the business carried out by the Company and its subsidiaries. His findings were submitted to the Risks and Internal Controls Committee and to the Board of Directors (*Criterion 8.C.5, letter a*);
- he implemented the guidelines adopted by the Board, managing the drafting, implementation and management of the internal control and risk management system, verifying its general adequacy, efficacy and effectiveness (*Criterion 8.C.5, letter b*);

- he aligned the system with the operating activities and with the current regulatory framework (*Criterion 8.C.5, letter b*);
- during the Board of Director's meeting of 12 May 2011, he proposed to appoint Luigi Piccinno as Manager responsible for Internal Control (*Criterion 8.C.5, letter C*).

## 11.2. MANAGER RESPONSIBLE FOR INTERNAL CONTROL

On 12 May 2011, the Board of Directors appointed Luigi Piccinno as Manager Responsible for Internal Control. The role envisages checks on the consistency of the internal control and risk management system, its operations and effectiveness (*Criterion 8.C.6, letter a*).

The appointment was made on advice of the Executive Director in charge of internal control and risk management, following consultations with the Risks and Internal Controls Committee (*Criterion 8.C.1*).

The Manager Responsible for Internal Control's remuneration, following the opinion of the Risks and Internal Controls Committee, has been determined in accordance with company policies (*Criterion 8.C.1*).

The Manager Responsible for Internal Control is in charge of the company quality system, and is a member of the Supervisory Board pursuant to Legislative Decree 231/2001. He reports directly to the Executive Director in charge of the Internal Control and Risk Management System. The Board of Directors, after consulting with the Risks and Internal Controls Committee and with the Executive Director in charge of the Internal Control and Risk Management System, deemed this solution adequate and balanced, in view of the relatively small size of the group and its streamlined operating structure (*Criterion 8.C.6, letter b*).

The Manager Responsible for Internal Control had direct access to useful information for carrying out his duties (*Criterion 8.C.6, letter c*) and reported to the Risks and Internal Controls Committee and to the Board of Statutory Auditors on the activities performed (*Criterion 8.C.6, letter e*). Additionally, he reported to the executive director in charge of the internal control and risk management system (*Criterion 8.C.6, letter e*).

The internal audit function is identified with the internal control function performed by Luigi Piccinno. The internal auditor, in carrying out its functions, is supported by an external consultant, Marco Masante (*Criterion 8.C.7*).

## 11.3. ORGANIZATION MODEL pursuant to Legislative Decree no. 231/2001

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

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

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

The TXT model is composed of:

- a) the General Part;
- b) the Code of Ethics and the organisation procedures that are already in force within TXT and pertain to the control of conducts, events or acts relevant to Legislative Decree no. 231/2001. The Code of Ethics and the procedures in force, even if they have not been explicitly issued pursuant to Legislative Decree

no. 231/2001, aims at monitoring that the conduct of TXT representatives or employees is correct, accurate and compliant with the law, and therefore, they contribute to ensure crime prevention according to Legislative Decree no. 231/2001;

- c) the Special Part, concerning the specific offence categories that are relevant for TXT and the applicable provisions.

On 5 August 2010, the Board approved the updating of the Code of Ethics and the Organization Model, in particular with reference to the company activities in the software and IT systems sector and to the expertise it has accrued in the last years. The main changes relate to the important improvements that have been implemented in terms of work safety, including with subcontracting and third party companies. Other changes concern the specific field of IT offences. During 2011 the Organization Model was further updated to include new regulatory provisions governing environmental crimes.

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

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

On 10 May 2012 the Board of Directors confirmed the 12-month office of the Supervisory Board 231, passing from 3 to 2 members: Marco Masante (Chairman) and Luigi Piccinno.

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

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

## 11.4. EXTERNAL AUDITORS

Following the end of 2006-2011 term of office, with the approval of the financial statements for the year ending 31 December 2011, Mazars S.p.A. ceased their role as External Auditors.

The Shareholders' Meeting of 23 April 2012 appointed Reconta Ernst & Young SpA, Via della Chiesa 2 - 20123 Milan as External Auditors for the years 2012 to 2020, following the proposal of the Board of Statutory Auditors. Their tasks include auditing the annual financial statements and half-yearly reports, as well as monitoring activities under Article 155 of the Consolidated Law on Finance.

## 11.5. DIRECTOR RESPONSIBLE FOR PREPARING CORPORATE ACCOUNTING DOCUMENTS

On 14 February 2008, the Board of Directors, with a favourable opinion of the Board of Statutory Auditors, appointed Paolo Matarazzo as Director responsible for preparing corporate accounting documents. Paolo Matarazzo is also the Group's Chief Financial Officer.

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

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

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

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

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

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

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

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

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

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

On 8 November 2010 the Board of Directors has approved a new implementation procedure, pursuant to Article 2391-bis of the Italian Civil Code, Article 9.C.1 of the Corporate Governance Code of Listed Companies, and the Consob regulation on related parties, approved by Resolution no. 17221 of 12 March 2010 (the "Consob Regulation"). This new procedure identifies the rules governing the determination, approval and execution of transactions with related parties of TXT e-solutions S.p.A., either directly or through subsidiary companies. The purpose of this procedure is to ensure the formal and material transparency of said transactions.

"Significant Transactions with Related Parties" refer to:

- i) Transactions exceeding the lowest amount between € 500,000 and 5% of any of the following rele-

vance ratios, to be applied according to the specific transaction:

- Equivalent-value relevance ratio: the ratio between the equivalent transaction and the net equity drawn from the latest published TXT consolidated balance sheet or, if greater, the TXT capitalization at the end of the last trading day included in the period covered by the latest accounting periodically-published document (annual, half-yearly or interim reports).

Should the economic conditions of the transaction be determined, the equivalent transaction value shall be:

- a. for cash components, the amount paid by or to the other party;
- b. for financial instrument components, the fair value determined at the date of the transaction, in accordance with international accounting standards adopted by Regulation (EC) no. 1606/2002;
- c. for funding transactions or grant of guarantees, the maximum amount payable.

If the economic conditions of the transaction depend, in whole or in part, on issues not yet known, the equivalent transaction value is the maximum admissible or payable value under the agreement.

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

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

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

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

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

- a. in case of acquisition, the greater of the consideration and the carrying value that will be attributed to the asset;
- b. in case of disposal, the carrying value of the asset.

- Liabilities relevance ratio: the ratio between the total liabilities of the entity acquired and TXT's total assets. Data to be used shall be obtained from the most recently published TXT financial statements (consolidated, if available); whenever possible, similar data should be used for determining the total liabilities of the entity or business branch acquired.

- ii) Transactions with the listed parent company or any entities related to the latter which are in turn related to TXT, where at least one the abovementioned relevance ratios exceed 2.5%.
- iii) Transactions with related parties that may have consequences on the management autonomy of the Company (including those concerning intangible assets), exceeding the same relevance thresholds as stated in i) of 5.0% or 2.5% if conditions pursuant to point ii) apply.

In order to calculate the aforementioned values, each single transaction is considered, or, should several transactions be connected as part of the same purpose or goal, the total value of all connected transactions is considered.

The Board of Directors is in charge of the decisions regarding the Transactions with Related Parties, and the

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

The Board of Directors decides on the Transactions after grounded, non-binding advice of a committee solely composed of non-related non-executive Directors, with the majority of them being independent (the “Independent non-Related Directors’ Committee”), on the interests of the Company in reference to the Transaction, as well as on its profitability and material correctness of its conditions.

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

The Board of Directors and the Board of Statutory Auditors shall receive exhaustive disclosure on Transactions at least every three months.

The decision of the Board of Directors may be taken against the advice of the Independent non-Related Director Committee.

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

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

Transactions of less than € 100,000 are excluded from the aforementioned procedure, as long as they do not represent a risk and they do not have a significant impact on the Company equity and financial position. Similarly, the remuneration plans based on financial instruments approved by the Shareholders’ Meeting, pursuant to Article 114-bis of the Consolidated Law on Finance and related implementation provisions, are also excluded from this procedure, also in light of the Shareholders’ Meeting competence and rigorous disclosure process. Furthermore the decisions taken by the Shareholders’ Meeting on issues stated in Article 2389, paragraph 1, of the Italian Civil Code, regarding remuneration of members of the Board of Directors and the Executive Committee are likewise excluded from this procedure, as well as the decisions on the remuneration of Directors who cover particular offices within the amount decided by the Shareholders’ Meeting pursuant to Article 2398, paragraph 3, of the Italian Civil Code. Finally, remunerations of Directors who cover particular offices not included in the aforementioned examples and of Executives with strategic responsibilities are excluded from this procedure, provided that:

- the Company has implemented a remuneration policy;
- during the remuneration policy planning a committee composed of mainly independent non-executive directors is involved;

- the Shareholders' Meeting has approved the report concerning the remuneration policy or it has expressed its opinion on it;
- the remuneration is consistent with the relevant corporate remuneration policy.

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

Transactions with associated companies are also exempt from the procedure concerning Transactions with Related Parties, as long as in the associated parties there are non-significant interests of other Company's related parties.

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

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

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

### **13. APPOINTMENT OF STATUTORY AUDITORS**

The Board of Statutory Auditors' appointment is expressly governed by the Company's By-Laws. In particular, the appointment of the Board is decided on the basis of lists drafted by the shareholders in which candidates are listed progressively.

The number of candidates in each list is not greater than the number of members to be elected. Such lists may be submitted by those shareholders who, either alone or together with others, own at least 2% (two per cent) of shares with voting rights during the Ordinary Shareholders' Meeting. Each shareholder or shareholders belonging to the same group shall not submit directly, by delegation or trust, more than one list and shall not vote for different lists.

Two standing auditors and one alternate auditor are drawn from the list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order they were listed in. The Chairman of the Board of Statutory Auditors and the other alternate auditor are drawn from the second list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order they were listed in. In the event that several lists obtained the same number of votes, a run-off takes place between said lists voted by all the shareholders participating in the Shareholders' Meeting. Candidates from the list that obtain a simple majority of votes are deemed elected. Each candidate may run in one list only, under penalty of being ineligible as a candidate. The composition of the Board of Directors is decided on the basis of lists drafted by the shareholders in which the candidates are listed progressively.

The number of candidates in each list is not greater than the number of members to be elected. In the event of death, withdrawal or end of term of office of one auditor, the alternate auditor belonging to the same list takes over.

Any candidates cannot be included in the lists if they already hold office in five other listed companies or do not comply with the respectability and professional requirements pursuant to applicable regulations.

The aforementioned lists shall be deposited at the Company's registered office at least 25 days before the date fixed for the shareholders' meeting on first call. The lists shall be available to the public at the Company's registered office, on its website, and by any other means provided for by Consob regulations at least 21 days before the date fixed for the Shareholders' Meeting. Within the above-mentioned deadlines each list must also be submitted together with the declarations in which individual candidates accept their candidacy and certify the absence of ineligibility and incompatibility reasons and the possession of relevant regulatory requirements, and together with the candidate's professional and personal information. Lists that do not

comply with the aforementioned requirements are considered as not submitted. Furthermore, a list of all other offices must be included, as well as information on the shareholders submitting the lists with the total percentage of their shareholdings and a declaration of Shareholders other than those holding – even jointly – a controlling stake or the relative majority of shares, stating that no relation exists with the shareholders holding the majority of shares, pursuant to Article 144-quinquies of the Issuers' Regulation. The deadlines for the submission of the Board of Statutory Auditors' lists can be re-opened in case no list is submitted within the 25-day deadline, only one list is submitted or only related lists are submitted. In this case submitting threshold requirements are halved. The election of Statutory Auditors will be performed pursuant to Article 23 of the Company's By-Laws. Individuals submitting a "minority list" are also required to follow the recommendations issued by Consob in Communication no. DEM/9017893 of 26 February 2009.

## **14. STATUTORY AUDITORS (Article 123-bis paragraph 2, letter d), of the Consolidated Law on Finance)**

The current Board of Statutory Auditors was elected, in compliance with the procedures described above, by the Shareholders' Meeting held on 20 April 2011. It shall hold office until the approval of the financial statements for the year ending 31 December 2013. During the Shareholders' Meeting held on 20 April 2011 two lists were submitted. The majority list was submitted by E-business consulting SA and included Fabio Maria Palmieri, Luigi Carlo Filippini and Pietro Antonio Grignani (two standing auditors and one alternate auditor, as respectively appointed). The minority list was submitted by Alvisè Braga Illa and included Raffaele Valletta, Angelo Faccioli and Luisa Cameretti (from which the Chairman of the Board of Statutory Auditors and an alternate auditor were elected). There are no connections between the lists. The majority list received 63.08% of votes; the minority list 36.89%.

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

No auditor resigned from his/her office during 2012. No significant changes in the Board of Statutory Auditors took place after the end of the reporting period.

The professional curriculum of each statutory auditor (Article 144-decies of Consob Issuers' Regulations) is provided below.

### **Raffaele Valletta**

Born in Milan on 10 October 1939.

After graduating in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1963, he enrolled in the register of Chartered Accountants in 1964 and in the Register of Statutory Auditors in 1995. Founding member of Studio Commercialisti Associati Valletta-Belloni-Cattaneo-Polli-Todescato in Milan. On several occasions Mr Valletta was appointed as assistant to the judge by the Milan Court and Court of appeal and as Receiver by the Ministry of Labour and Welfare. Mr Valletta is a board member of Gruppo Finelco S.p.A.

### **Fabio Maria Palmieri**

Born in Erba (province of Como) on 16 July 1962.

After graduating in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1988, he enrolled in the register of Chartered Accountants and Bookkeepers of Como under number 457 and in the Register of Statutory Auditors under number 69384. Partner of Studio Legale Tributario Bruni-Galasso-Palmieri based in Como, which involves the cooperation of around fifteen consultants. He is currently a consultant of two groups, a board member in 5 companies, and a standing auditor of around 20 companies, including a listed company.

### **Luigi Carlo Filippini**

Born in Gallarate (province of Varese) on 15 June 1962.

After graduating in Economics and Commerce from Università Cattolica del S. Cuore in Milan in 1987, he enrolled in the register of Chartered Accountants and in the Register of Statutory Auditors. Founding member of Studio Tributario e Societario Borioli e Colombo based in Milan, and member of BKR.

During 2012 the Board held 7 meetings of an average duration of two hours. 6 meetings have been scheduled for 2013, and the first one was held on 18 January 2013.

The Board of Statutory Auditors assessed the independence of its members (*Criterion 10.C.2*). In performing the above-mentioned assessment, the Board complied with the criteria provided for by the Code concerning Directors' independence (*Criterion 10.C.2*).

According to corporate policies, in the event that an auditor who, in his own favour or on behalf of third parties, has an interest in a specific corporate transaction, he or she shall promptly and exhaustively report to the other auditors and to the Chairman about nature, terms, origin and scope of his/her interest (*Criterion 10.C.4*).

The Board of Statutory Auditors oversaw the independence of external auditors, verifying both the respect of the relative legislative regulations and the nature and entity of services different from audit provided to the Issuer and its subsidiaries by the external auditors and the entities belonging to its network (*Criterion 10.C.5*).

While performing its activities, the Board of Statutory Auditors coordinated with the Internal Audit function and the Risks and Internal Controls Committee (*Criterion 10.C.6 and 10.C.7*).

## **15. RELATIONSHIP WITH SHAREHOLDERS**

The Company actively endeavours to develop a constructive dialogue with institutional investors, shareholders and the public in general, deeming it an important goal since its listing. To the end of maintaining such relationship, in compliance with regulations governing disclosure of corporate documents and figures, TXT has decided to create specific internal functions.

Furthermore, communications are provided to shareholders through the Company's website, [www.txtgroup.com](http://www.txtgroup.com), where income and financial information (i.e. annual, half-yearly and quarterly reports), price sensitive and other press releases issued by the Company are available, as well as a list of corporate events and communication tools that enable to proactively interface with the market with regard to all new corporate and financial issues concerning the Company and allow Shareholders to exercise their rights based on informed decisions (*Criterion 11.C.1*).

The Chief Financial Officer Paolo Matarazzo was appointed as Investor Relations Manager (*Criterion 11.C.2*).

During 2012 the Company took part in the "Star conference" event organised by Borsa Italiana, both in Milan on 27 March 2012, and in London on 2 October 2012. The Company also organised two presentations to investors and analysts during the Shareholders' Meetings held on 23 April 2012 and 6 December 2012.

## **16. SHAREHOLDERS' MEETINGS (Article 123-bis, paragraph 2,**

## letter c), of the Consolidated Law on Finance)

The duly constituted Shareholders' Meeting represents all the shareholders. The resolutions it approves in compliance with the law and the By-Laws bind all the shareholders, including those who are absent or disagree. Shareholders' Meetings are normally held at the Company's registered office, but they can be held elsewhere in Italy.

The Shareholders' Meeting is convened by public notice published on a national newspaper and on the Company's website within the deadlines and means provided for by the law; the notice indicates the date, time and place of the meeting and the agenda. The Shareholders' Meeting cannot pass resolutions on issues which are not on the agenda. The Shareholders' Meeting held to approve the financial statements is normally held within one hundred and twenty days from the end of the relevant reporting period.

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

Each shareholder entitled to participate can be represented during the Shareholder's Meeting by means of a written proxy. The relevant form is available on the Company's website ([www.txt.it](http://www.txt.it) > Shareholders' Meetings document section). The proxy can be sent to [deleghetxt@txtgroup.com](mailto:deleghetxt@txtgroup.com). The early notification of proxies does still require the person entrusted with it to submit a true copy and certify the identity of the delegating person, in order to take part in the Shareholders' Meeting. The TXT By-Laws do not envisage the appointment of a company officer to manage proxies.

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

Shareholders entitled to participate in the Shareholders' Meeting may submit questions on the agenda even before the Shareholders' Meeting, by sending a registered letter to the Company's registered office or an email to [infofinance@txtgroup.com](mailto:infofinance@txtgroup.com). Questions that are received prior to the Shareholders' Meeting shall be answered at the latest during the meeting itself. The Company reserves the right to give a single answer should there be numerous questions on the same topic.

The request must include the necessary certification issued by the intermediaries proving the shareholders' voting right or the communication approving the participation in the Shareholders' Meeting and the voting rights.

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

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

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

Unless otherwise stated by the law, the Ordinary Shareholders' Meeting passes resolutions with the absolute majority of represented share capital, both on first and second call. As for appointments to the Company's

positions, those receiving the highest number of votes are deemed elected.

The recommendation included in the Corporate Governance Code considering the Shareholders' Meetings as an opportunity for developing a constructive dialogue between the Board of Directors and shareholders has been carefully analysed and fully shared by the Company. The latter also deemed suitable – besides encouraging the participation of all directors to the Shareholders' Meeting – to adopt specific measures aimed at adequately enhancing this instrument (*Criterion 11.C.5*).

To this end, the Shareholders' Meeting held on 7 April 2011 approved the introduction of a specific set of rules to ensure that the Company's Ordinary and Extraordinary Shareholders' Meetings are effectively held, while guaranteeing the right of each shareholder to ask for clarifications on the agenda, speak and put forward proposals.

The Board reported to the Shareholders' Meeting on the activities performed and scheduled, and arranged to provide shareholders with adequate disclosure on the necessary issues so that they can take informed decisions pertaining to the Shareholders' Meeting (*Criterion 11.C.4*).

During 2012 the Company's capitalisation rose sharply thanks to its good performance and the positive impact of the purchase of Maple Lake. At 31 December 2012 the Company's market capitalisation was € 32.6 million, compared to € 21.5 million at 31 December 2011. The shareholding structure was unchanged. As a result, it was not deemed necessary to propose changes to the By-Laws during the Shareholders' Meeting (*Criterion 11.C.6*).

During 2012 two Shareholders' Meetings were convened, both ordinary and extraordinary.

The Ordinary Shareholders' Meeting of 23 April 2012 approved the 2011 financial statements, the Remuneration Report, the purchase plan of treasury shares, the approval of a stock grant plan and the appointment of the External Auditors. During the extraordinary session, shareholders approved the free-of-charge share capital increase through the use of the share premium reserve.

The Ordinary Shareholders' Meeting of 7 December 2012 approved the appointment of a member of the Board of Directors and during the extraordinary session shareholders resolved upon a share capital increase against payment, excluding option rights, and on the update of the By-Laws on equal access to the administrative and audit boards of listed companies.

In reference to Article 7 of the Corporate Governance Code relating to the remuneration of directors and executives with strategic responsibilities, the Shareholders' Meeting of 23 April 2012 approved the remuneration policy document prepared by the Remuneration Committee and the Board of Directors.

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

No other corporate governance issues have been implemented apart from those previously mentioned.

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

There have been no changes in the corporate governance structure since the end of the reporting period.

**TABLE 1: SHAREHOLDING STRUCTURE DISCLOSURE**

Shareholder	Direct shareholder	No. of shares owned	As a % of capital	As a % of voting capital
4CV PTE Ltd (through E-Business Consulting S.A.)	NO	1,560,246	27.06	27.06
Alvise Braga Illa	YES	801,485	13.90	13.90
Neil Coulton	YES	186,402	3.23	3.23
Lazard Freres Gestions	YES	156,000	2.71	2.71
Treasury shares	YES	593,500	10.29	10.29
Outstanding shares	YES	2,469,259	42.82	42.82
Total shares		5,766,892	100.00	100.00

**TABLE 2: COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES**

Office	Name	In office since	In office until	List	Exec.	Non exec.	Indep. pursuant to code	Indep. pursuant to TUF	BoD attendance %	No. of other offices	Internal Control Committee	I.C.C. attendance %	Remuneration Committee	R.C. attendance %
Chairman	Alvise Braga Illa	20.4.2011	2013 Fin. Statements Appr.	Minority	x				100%	-				
CEO	Marco Edoardo Guida	20.4.2011	2013 Fin. Statements Appr.	Minority	x				100%	-				
Director	Paolo Enrico Colombo	20.4.2011	2013 Fin. Statements Appr.	Minority	x				100%	-				
Director	Andrea Cencini	20.4.2011	2013 Fin. Statements Appr.	Minority	x				100%	-				
Director	Franco Cattaneo	20.4.2011	2013 Fin. Statements Appr.	Majority		x	x	x	100%	1	x	100%	Chairman	100%
Director	Adriano De Maio	20.4.2011	2013 Fin. Statements Appr.	Minority		x	x	x	86%	4	Chairman	100%	x	100%
Director	Teresa Cristiana Naddeo	10.5.2012	2013 Fin. Statements Appr.	(1)		x	x	x	100%	-	x	100%	x	100%

(1) Director co-opted by the Board on 10 May 2012 and appointed by the Shareholders' Meeting on 7 December 2012

Directors who retired from office during 2012

Director	Paolo Matarazzo	20.4.2011	10.5.2012	Minority	x				100%	-				
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Quorum for presenting lists at the time of the most recent appointment: 4.5%														
No. of meetings held during the year	BoD: 7	ICC: 3	RC: 3											

**TABLE 3: COMPOSITION OF THE BOARD OF STATUTORY AUDITORS**

Office	Name	In office since	In office until	List	Indep. pursuant to Code	BoA attendance %	No. of other offices *
Chairman	Raffaele Valletta	20.4.2011	2013 Fin. Statements Appr.	Minority	x	100%	-
Standing	Fabio Maria Palmieri	20.4.2011	2013 Fin. Statements Appr.	Majority	x	100%	-
Standing	Luigi Carlo Filippini	20.4.2011	2013 Fin. Statements Appr.	Majority	x	100%	-
Alternate	Angelo Faccioli	20.4.2011	2013 Fin. Statements Appr.	Minority			
Alternate	Pietro Antonio Grignani	20.4.2011	2013 Fin. Statements Appr.	Majority			

No auditor retired from office during 2012

Quorum for presenting lists at the time of the most recent appointment: 2%

No. of meetings held during 2012: 7

This column shows the number of offices, specifically those of director or auditor, the person holds with other companies listed on Italian regulated markets. Said offices are detailed in the Report on Corporate Governance.

The complete report on all offices held is attached to the Board of Auditors' Report on the Financial Statements.