

**TXT e-solutions S.p.A.**

**2013 REPORT  
ON CORPORATE GOVERNANCE  
AND SHAREHOLDING STRUCTURE**

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

Milan, 4 March 2014  
Available on [www.txtgroup.com](http://www.txtgroup.com)

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GLOSSARY

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

Within the scope of the measures aimed at enhancing value for shareholders and ensuring transparent management actions, TXT defined an articulated and homogeneous system of rules of conduct concerning both its own 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 ensuring proper and transparent corporate information and creating value for shareholders through an effective management of the Company. Corporate bodies are listed below:

- Shareholders' Meeting;
- Board of Directors;
- Remuneration Committee;
- Risks and Internal Controls Committee;
- 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's executive directors and managers with strategic responsibilities.

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

The Board of Statutory Auditors is responsible for ensuring compliance with the law and the Company's By-Laws as well as for overall management controls. Is not assigned with the task of auditing company accounts, which is the responsibility of External Auditors, registered in a specific Register. The latter are vested with the power to verify, during the reporting period, that company books are properly managed, accounting items are correctly recorded and statutory and consolidated financial statements are in line with accounting entries and 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 "2013 Report on Corporate Governance and Shareholding Structure" 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) at 31 December 2013**

### **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. At 31 December 2013, the subscribed and paid-in share capital was equal to € 5,911,932.00, broken down into 11,823,864 shares with a par value of € 0.50 each.

The share capital increased from € 2,883,466.00 at 31 December 2012 to € 5,911,932.00 at 31 December 2013. The number of shares increased from 5,766,932 to 11,823,864 as a result of the exercise of 145,000 stock options (originally 72,500, they doubled subsequently to the free share capital increase) and of a free share capital increase of 5,911,932 new shares.

During 2013, a total of 145,000 new ordinary shares were issued (originally 72,500, they doubled subsequently to the free share capital increase), with a par value of € 0.50 each, cum dividend, under the 2008 stock option plan after vesting conditions were met. In addition, the Shareholders' Meeting of 23 April 2012 approved a stock grant plan providing for the allocation of a maximum of 1,020,000 shares (originally 510,000, they doubled subsequently to the free share capital increase) 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.

The Shareholders' Meeting held on 17 December 2013 approved a resolution concerning a free share capital increase involving the issue of one share with a par value of € 0.5, cum dividend, for every share held, by using the share premium reserve; this share capital increase was filed with the Business Register on 27 December 2013. Shares have become cum dividend since 1 January 2013. The 5,911,932 new shares issued have become effective on the Stock Market since 3 February 2014.

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

No shares with special controlling interests have been issued.

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

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 provisions on takeover bids as per the Company's By-Laws (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) Agreements between the Company and its directors providing for a severance package in case of resignation, dismissal without just cause or end of term of office because of a takeover bid**

At 31 December 2013 no agreement was entered into.

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

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

At 31 December 2013 there were no provisions different from the applicable legal or regulatory provisions.

Disclosures pursuant to Article 123-bis, paragraph 1, letter l) are provided in the Board of Directors' Report (Section 4.1).

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

On 17 December 2013 the Shareholders' Meeting passed a resolution approving a free share capital increase of € 2,955,966.00, involving the issue of one new ordinary share with a par value of € 0.50, cum dividend as from 1 January 2013, for every share held, by using part of the share premium reserve, and providing the Board of Directors with powers for implementation. The issue was subscribed on 3 February 2014.

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 1,020,000 ordinary shares (originally 510,000, they doubled subsequently to the free share capital increase), to be performed by granting treasury shares.

Further to the conclusion of the 2008 stock options plan, the Board of Directors' authorization to increase the share capital for this plan was, for the non-exercised portion, cancelled during the Shareholders' Meeting of 17 December 2013.

On 23 April 2013 the Company's Shareholders' Meeting revoked the previous authorisation to purchase treasury shares and empowered the Board of Directors to proceed, also through delegated parties, pursuant to Article 2357 of the Italian Civil Code, with the purchase, in one or more tranches, for a period of 18 months 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 lower than the par value of TXT e-solutions S.p.A. shares, and the maximum payment must not be higher than the average of the official Stock Market prices in the three sessions prior to the purchase, plus 10%, and in any case it must not exceed € 25.00 (twenty-five/00).

The Shareholders' Meeting also authorized the Board of Directors, pursuant to Article 2357-ter of the Italian Civil Code, to transfer – also through delegated parties, at any time, in whole or in part, in one or more tranches and also before the purchases have been completed – treasury shares purchased based on this resolution, through their sale on the market, in relation to the stock options and stock grant plans adopted by the Shareholders' Meeting, and, finally, as a consideration for the purchase of holdings and/or the conclusion of agreements within the framework of the Company's investment policy. 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 amount that is not lower than the par value of such shares.

This purchase of treasury shares 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 1,368,120 treasury shares are recognised in the Company's financial statements (originally 684,060, they doubled subsequently to the free share capital increase), equal to 11.57% of the share capital, for a total par value of € 684,060 and a market value of € 12,408,848. This purchase was made possible by using the share premium reserve for an amount equal to the value of the treasury shares purchased (€ 3,568,212). During 2013, 237,120 treasury shares (originally 118,560, they doubled subsequently to the free share capital increase) were purchased for an average price of € 4.75 (originally € 9.45, it halved subsequently to the free share capital increase) and 56,000 treasury shares (originally 28,000, they doubled subsequently to the free share capital increase) were awarded to employees within the Stock Grant Plan.

#### **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.

### **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) and 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 strategically important subsidiaries are not subject to non-Italian legal provisions affecting the Company's corporate governance structure.

### **4. BOARD OF DIRECTORS**

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

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

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

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

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

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

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

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

Each person entitled 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 that 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 required by the Shareholders' Meeting, directors are appointed by the Shareholders' Meeting through a resolution passed by the type of majority required by the law.

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

In any case, 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.

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

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

The Board of Directors has not created, 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.

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.), since the identification of parties to be assigned such role or the adoption of relevant selection criteria, cannot be performed before the replacement becomes necessary. The appointment of a new executive director shall be assessed on a case by case basis.

#### **4.2. Composition (Article 123-bis, paragraph 2, letter 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' agreements to control the Company.

All members of the Board of Directors have been appointed by the Shareholders' Meeting held on 20 April 2011 and shall remain in office up until the approval of the Financial Statements 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 Ms 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 Ms Teresa Cristiana Naddeo as Director. She was born in Turin on 22 May 1958; her term of office will end at the same time as that of the other directors currently holding office and, thus, with the approval of the financial statements for the year ending 31 December 2013. The rules governing the list voting 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, Ms Teresa Cristiana Naddeo complies with all the respectability, professionalism and independence requirements provided for 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 Alvise Braga IIIa, with the following names: Alvise Braga IIIa, 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). There are no connections between the lists. The majority list received 63.08% of votes; the minority list 36.89%.

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

Directors Alvise Braga IIIa, Marco Edoardo Guida, Adriano De Maio, Franco Cattaneo, and Paolo Enrico Colombo, elected by the Shareholders' Meeting held on 20 April 2011, had already been serving as Directors.

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

#### Alvise Braga IIIa

Born in Segovia (Spain) on 12 December 1939.

After graduating from Politecnico di Milano, Mr Braga IIIa 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 IIIa managed Italtel R&D Laboratories, founded Zeltron S.p.A. and led the Ducati Energia restructuring process as General Manager. Mr Braga IIIa founded TXT Automation Systems, sold to ABB in 1997, and TXT e-solutions in 1989.

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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 as Vice Chairman and subsequently as Manager of International Operations, effectively converting TXT from an Italian company to an international group, by managing the acquisition and integration of two foreign companies (based in UK and Germany, respectively). 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.

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Franco Cattaneo

Born in Trieste on 11 July 1939.

Mechanical Engineering graduate from Politecnico di Milano. PMD at Harvard Business School (USA).

Professional background: Chief Executive Officer and General Manager of Pomini S.p.A. (leading engineering company); Chief Executive Officer of Jucker (Italy) 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.

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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 a degree honoris causa 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 IREER (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. Chairman of Area Science Park in Trieste since 2012.

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

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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 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.

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Andrea Cencini

Born in Tolmezzo (UD) on 7 June 1963.

After graduating in IT, he was assigned the task of designing and developing 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 business units. Currently, Mr Cencini is the Manager of the TXT Perform Division.

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

The Chairman made it possible for directors to participate, subsequent to their appointment and during their term of office, in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, as well as the relevant regulatory framework of reference (Criterion 2.C.2.). Considering the Board of Directors' composition and the seniority of Independent Directors (3 people), the application of the principle is fulfilled with thorough discussions and meetings with management. The other Directors are executive directors (4 people) and company officers and managers.

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 (Criterion 1.C.3.).

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 (*Criterion 1.C.1. letter a*):

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

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

1. gives and revokes the CEO'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; it assesses in advance real estate transactions and disposal of strategic assets;
5. defines the guidelines and identification parameters of the most significant transactions, also involving related parties;
6. oversees general operating performance on the basis of information received from the General Manager and the Risks and Internal Controls Committee;
7. establishes the Company's and the Group's structure and checks their adequacy;
8. reports to the shareholders at the Shareholders' Meeting.

During the financial year 2013, the Board of Director held 5 meetings with an average duration of 3 hours. 5 meetings have been scheduled for the financial year 2014, none of which before 4 March 2014.

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 items is performed, all documentation and information – and in particular draft interim reports – shall be made available to the Board members a few days before the meeting (*Criterion 1.C.5.*). The Board meetings may also be held via audio and video conferencing. 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.

Company managers, in charge of relevant functions, the Company's auditors and occasionally other external members may join any Board meeting with the aim of providing in-depth analysis of the issues on the agenda (*Criterion 1.C.6.*).

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) and c).*

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

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

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

The Board is reserved the right to examine and approve in advance 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).*

On 6 May 2013, the Board assessed the size, composition and functioning of the board itself and of its committees (*Criterion 1.C.1., letter g).*

An anonymous assessment was carried out by means of a questionnaire and subsequent discussion and evaluation of the results. The assessment parameters examined include various aspects regarding how the Board of Directors operates, such as size and composition, involvement, meetings, effectiveness and responsibilities, as well as the Committees' composition and function.

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

With the purpose to ensure the correct management of company information, the Company adopted a procedure for internal handling and disclosure to third parties of documents and information concerning the Company, notably price sensitive information (*Criterion 1.C.1., letter j).*

#### **4.4. Delegated bodies**

##### **Chief Executive Officer**

At the Board of Directors' meeting of 20 April 2011 Mr Marco Edoardo Guida was confirmed as Chief Executive Officer, a position which he has been holding since 01 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 agreements, 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-to-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 Municipalities; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction concerning the use of loans provided by banks and in particular arrange for any commercial bills to be discounted and collected and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, *Cassa Depositi e Prestiti*, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising investment and divestment;
  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-in-fact and representatives 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.

In his capacity as Chief Executive Officer, Mr Marco Guida is responsible for the Company's management.

The case of Interlocking Directorate does not apply since TXT's Chief Executive Officer does not serve as a director in other issuers (not belonging to the same Group) where a TXT director serves as Chief Executive Officer (*Criterion 2.C.5*).

### **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 by 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 or she 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 Board of Directors' meeting 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-to-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 Municipalities; issue receipts and discharges; issue, endorse and collect bills of exchange, money orders and bank cheques, including overdraft, provided that the figure is within the credit line allowed to the Company; perform any transaction concerning the use of loans provided by banks and in particular arrange for any commercial bills to be discounted and collected and use the relevant proceeds; take any action or make transactions with the Public Debt Offices, *Cassa Depositi e Prestiti*, post offices, railway offices, Customs and transport firms and in general with any public and private office, with the power to collect valuables, packages, letters and registered letters, etc.; in other words, implement any formality and transactions, including those with Issuing and Credit Institutions, by authorising investment and divestment;
7. represent the Company before any ordinary, special, national, regional and administrative Authority; sign and submit petitions, appeals, minutes concerning any issue, file administrative and court cases; take part in creditors' agreements and bankruptcy procedures; appoint lawyers and enter into any retainer agreements, in relation to any court proceedings, including with enforcing powers, in any stage and instance; settle disputes through arbitration, with awards enforceable as a court ruling (*arbitrato rituale*) or with decisions counting as a contract (*arbitrato irrituale*), and acting as *amiable compositeur*; appoint arbitrators; sign tax declarations and certifications;
8. 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 of any level;
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-in-fact and representatives 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 or she be the controlling Shareholder.

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

No Executive Committee has been created.

**Disclosure to the Board of Directors**

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

**4.5. Other executive directors**

The Board of Directors comprises two more members (Mr Andrea Cencini, Manager of the TXT Perform Division, and Mr 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 each 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 standing, 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 qualifying as independent are Mr Adriano De Maio, Mr Franco Cattaneo and Ms 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 non-executive directors by considering, among other things, the principle 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 Mr Franco Cattaneo, Mr Adriano De Maio and Ms Teresa Cristiana Naddeo. In relation to Mr 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; furthermore 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 to assess its members' independence (*Criterion 3.C.5.*).

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

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 Mr Adriano De Maio.

## **5. PROCESSING COMPANY INFORMATION**

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

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

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

The Chairman of the Board of Directors shall oversee compliance with the provisions on company disclosure

by arranging and coordinating all related intervention of internal structures. In light of the low degree of complexity of the Company's structure and 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 2003/6/EC directive on market abuse has been endorsed by Articles 152-sexies et seq. of the Consob Issuers' Regulation no. 11971, as 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 its listed financial instruments (*Criterion 1.C.1., letter f*).

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 equal 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 a resolution dated 8 June 2000. It includes three members, all independent, non-executive directors (*Principle 6.P.3*).

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

The Remuneration Committee is composed by three independent non-executive directors (Mr Franco Cattaneo, Mr Adriano De Maio and Ms Teresa Cristiana Naddeo) (*Principle 6.P.3*.) The Chairman of the Committee is Mr Franco Cattaneo.

During the year 2013 the Committee held three meetings (on 1 March, 8 May and 12 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 2014. The first 2014 meeting was held on 27 February 2014.

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

Other non-members have been invited to join the meetings of the Remuneration Committee (*Criterion 4.C.1., letter f*).

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 6.C.5.*).

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

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

The remuneration of executive directors and managers with strategic responsibilities is set with the aim of aligning their interests with the priority goal of creating value for shareholders in the medium-to-long term. As for directors with managing roles or dealing in general with 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 policy guidelines of the Corporate Governance Code.

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

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

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

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

Should the Committee be supported by a consultant on 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 4.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 4.C.1., letter e*).

The financial resources available to the Remuneration Committee to perform its duties amount to € 25,000.

## **9. REMUNERATION OF DIRECTORS**

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

### **General Remuneration Policy**

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

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

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

- a. the fixed and the variable component are properly balanced according to the Company's strategic objectives and risk management policy;
- b. the variable components are capped at a certain amount;
- c. the fixed component is sufficient to reward the director should the variable component not be paid because of the failure to achieve the performance objectives specified by the Board of Directors;
- d. performance objective are predetermined, measurable, and linked to the creation of value for shareholders in the medium-to-long term;
- e. the payment of a significant portion of the medium-to-long term variable compensation is deferred by a reasonable period with reference to its accrual; measurement of this portion and duration of the postponement are consistent with the characteristics of the business activity carried out and with the associated risk profiles;
- f. no compensation is provided following directors' early end of term of office or for failure to be reappointed.

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

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

In preparing share-based compensation plans, the Board of Directors has ensured that:

- a. the shares, options and every other directors' right to purchase shares or to be remunerated based on the share price performance price have a vesting period of three years, with intermediate partial vesting;
- b. vesting pursuant to paragraph a. is subject to predetermined measurable performance objectives;
- c. the directors keep a portion of the shares assigned or purchased following exercise of rights pursuant to paragraph a. for three years from receipt of compensation (*Criterion 6.C.2.*)

### **Remuneration of executive directors**

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

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

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

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

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

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

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

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

Non-executive directors' remuneration is not connected to the economic results achieved by the Issuer; it is based on a fixed amount decided by the Shareholders' Meeting. Non-executive directors are not involved in stock options incentive plans (*Criterion 6.C.4.*). Non-executive directors who are also independent Directors at TXT are not involved in stock options incentive plans (*Criterion 6.C.4.*).

The Shareholders' Meeting held on 23 April 2013 approved the Directors' Remuneration Report prepared by the Board of Directors.

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

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

An end-of-term severance package equal to 25% of the fee for particular offices resolved upon and accrued each year was confirmed by the Shareholders' Meeting held on 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 severance agreements were signed in case of resignation or dismissal /dismissal without just cause or if their term of office ends because of a takeover bid.

## **10. RISKS AND INTERNAL CONTROLS COMMITTEE**

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

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

The Risks and Internal Controls Committee is constituted by three independent non-executive Directors (Mr Franco Cattaneo, Mr Adriano De Maio and Ms Teresa Cristiana Naddeo) (*Principle 7.P.4.*). (*Criterion 4.C.1., letter a*). The Chairman of the Committee is Mr Adriano De Maio.

During the year 2013 the Committee held two meetings, chaired by the Chairman, on 1 March and 31 July. Besides its members, the Executive Director in charge of the internal control system and the Manager responsible for internal audit, the Committee meetings were also attended by the Statutory Auditors. (*Criterion 7.C.3.*). At least two meetings have been scheduled for 2014. The first 2014 meeting was held on 27 February 2014.

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

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

Under invitation of the Committee, non-members have taken part in the Risks and Internal Controls Committee's Meetings (*Criterion 4.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 7.C.1.*);
- b) assess, together with the Director responsible for preparing corporate accounting documents, having heard the External Auditors and the Board of Auditors, the proper implementation of the accounting standards and their consistency for the purposes of the consolidated financial statements (*Criterion 7.C.2., letter a*);
- c) express opinions on specific issues concerning identification of the company's main risks (*Criterion 7.C.2., letter b*);
- d) assess the work plan prepared by the manager responsible for internal audit and receive its periodic reports
- e) monitor the autonomy, adequacy, effectiveness, and efficiency of the internal audit function (*Criterion 7.C.3., letter d*);
- f) request the internal audit function – if necessary – to conduct inspections on specific operational areas, promptly informing the Chairman of the Board of Statutory Auditors (*Criterion 7.C.2., letter e*).
- g) report to the Board of Directors, at least every six months, on the occasion of the approval of the year-end

financial statements and the half-yearly report, on the adequacy of the internal control and risk management system (*Criterion 7.C.2., letter f*);

- h) assess the position and ensure the effective independence of the Director in charge of the Internal Control and Risk Management System, based on the provisions of Legislative Decree no. 231/2001 on the corporate administrative liability;
- i) assess, with the assistance of the Director in charge of the Internal Control and Risk Management System the manager of administrative functions and the manager responsible for internal audit, the proposals submitted by the External Auditors applying for the audit position, advising the Board on the issue which shall be submitted to the Shareholders' Meeting by the latter.

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).

Minutes of the Risks and Internal Controls Committee Meetings are duly taken and filed (*Criterion 4.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 4.C.1., letter e*).

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

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

Pursuant to 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 directors in charge of 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) Directors in charge of internal control who verify, within internal processes, whether the defined controls are adequate with respect to the potential risks and suggest to the Committee and management, where necessary, the adoption of any measures aimed at eliminating risks of a financial nature and enhancing the efficiency and effectiveness of the corporate processes.

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

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

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

The aims of the financial reporting process are the accuracy, reliability, trustworthiness and timeliness of the information disclosure. Risk management is an integral part of the internal control system. The periodic assessment of the internal control system on the financial reporting process aims to verify that the components

of the COSO Framework (control environment, risk assessment, control activities, information and communication, monitoring) are properly working together to achieve these objectives. The Company has implemented administrative and accounting procedures that ensure high standard reliability of the internal control on financial reporting.

The approach adopted by the Company on the assessment, monitoring and continuous updating of the internal control and risk management system in terms of financial reporting allows that assessment is carried out on critical areas with higher risk/importance, i.e. where the risks of material mistakes are higher, also due to fraud, on financial statements items and on related documents. The identification and assessment of possible errors that could have significant effects on financial reporting takes place through a risk assessment process that identifies 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 controls) that ensure their coverage, thus limiting the risk of any potentially significant error on financial reporting.

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

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

The assessment of controls, where appropriate, may require the identification of compensation controls, corrective action or improvement plans. The results of monitoring activities are regularly examined by 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 (*Principle 7.P.3, letter a) no. i).*

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

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

#### **11.2. Manager responsible for internal audit**

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

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

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

The Manager responsible for internal audit:

- a. is in charge of the company quality system, and is a member of the Supervisory Board pursuant to Legislative Decree no. 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 7.C.5., letter b*).
- b. verifies, both on an ongoing basis and in relation to specific needs and in compliance with international standards, the operations and suitability of the internal control and risk management system, by means of an audit plan, approved by the Board of Directors based on structured analyses and priorities (*Criterion 7.C.5., letter a*).
- c. had direct access to useful information for carrying out his duties (*Criterion 7.C.5., letter c*).
- d. 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 7.C.5., letter f*).
- e. prepared a report containing adequate information on his activity, on the method with which risk management is conducted as well as on the compliance with the plans defined for their management, in addition to an assessment on the adequacy of the internal control and risk management system (*Criterion 7.C.5., letter d*) and submitted it to the Chairman of the Board of Statutory Auditors, the Chairman of the Risks and Internal Controls Committee and the Chairman of the Board of Directors as well as to the Director in charge of the internal control and risk management system (*Criterion 7.C.5., letter f*).
- f. verified, within the audit plan, the reliability of the information systems including accounting systems (*Criterion 7.C.5., letter g*).

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

### **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 organization, 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 05 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 more significant updates introduced in 2013 regard the inclusion of crimes for employing irregular immigrants and for private-sector corruption.

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

The Board has updated the risk report with "as is" and gap analysis, the Code of Ethics, the Supervisory Board's regulations, the "Organization and Management Model 231", and it appointed Mr Marco Edoardo Guida as the Executive Director in charge of the Internal Control and Risk Management System, with the power to modify the operating tools, including those of the 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 and updating requirements, as requested by the various relevant bodies and by the Supervisory Board as well.

On 6 May 2013 the Board of Directors confirmed the 12-month office of the Supervisory Board pursuant to the 231 Model: Mr Marco Masante (Chairman) and Mr Luigi Piccinno.

The Organization Model is available on the Company's website at the following address:  
<http://www.txtgroup.com/it/governance/Pagine/organizationalmodel231.aspx>

#### **11.4. External Auditors**

The Shareholders' Meeting of 23 April 2012 appointed Reconta Ernst & Young SpA, Via della Chiusa 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 Mr Paolo Matarazzo as Director responsible for preparing corporate accounting documents. Mr 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 that administrative and accounting procedures are effectively complied with.

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

The various Company's parties involved in the internal control and risk management system (the Board of Directors, the Director in charge of the internal control and risk management system, the risks and internal controls committee, the manager responsible for internal audit, the director responsible for preparing corporate accounting documents and other company roles and functions with specific duties of internal control and risk management, the board of statutory auditors) shall coordinate their own activities and exchange relevant information during periodic meetings and, if necessary, during specially convened meetings (*Principle 7.P.3.*).

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

Transactions with related parties are defined by international accounting standards (notably IAS 24) and also

involve consolidated subsidiaries 100%-owned by the Company. Transactions between the Company and its subsidiaries are mainly of an on-going commercial nature, based on agreements which do not feature any unusual clauses differing from standard market practices for transactions at arm's length.

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

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

As for transactions with related parties, including intra-group transactions, not submitted 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, of implementation, on the assessment method adopted, underlying interests and reasons and any risks for the Company.

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

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

In any event, the Board of Directors shall be duly notified 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, the Corporate Governance Code of Listed Companies, and the Consob Regulation on related parties, approved by Resolution no. 17221 of 12 March 2010 (the "Consob Regulation"). This new procedure identifies the rules governing the determination, approval and execution of transactions with related parties of TXT e-solutions S.p.A., either directly or through subsidiary companies. The purpose of this procedure is to ensure the formal and material transparency of said transactions.

"Significant Transactions with Related Parties" refer to:

- i) Transactions exceeding the lower of € 500,000 or 5% of any of the following relevance ratios, to be applied according to the specific transaction:
  - Amount relevance ratio: the ratio between the transaction amount and the net equity resulting from the latest published TXT consolidated balance sheet or, if greater, the TXT capitalization at the end of the last trading day included in the period covered by the latest periodic report (annual, half-yearly or interim reports) published. Should the economic conditions of the transaction be determined, the transaction amount shall be:
    - a. for cash components, the amount paid by or to the other party;
    - b. for financial instrument components, the fair value determined at the date of the transaction, in accordance with international accounting standards adopted by Regulation (EC) no. 1606/2002;
    - c. for funding or guarantees, the maximum amount payable.

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

- Asset relevance ratio: the ratio between the total assets of the entity involved in the transaction and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet; 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 concerned.

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 transaction amount, plus the liabilities of the company acquired taken on by the purchaser, if any;
  - 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 higher of the consideration or the carrying amount that will be attributed to the asset;
  - b. in case of disposal, the carrying amount of the asset.
- Liabilities relevance ratio: the ratio between the total liabilities of the entity acquired and TXT's total assets. The data to be used shall be obtained from the most recently published TXT consolidated balance sheet (if 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 of the abovementioned relevance ratios exceeds 2.5%.
  - iii) Transactions with related parties that may have consequences on the management independence of the Company (including those concerning intangible assets), exceeding the relevance thresholds of 5.0% as stated in i) or 2.5% if conditions pursuant to point ii) apply.

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

The Board of Directors is in charge of 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 the nature, means of execution, conditions, including economic conditions, interests, underlying reasons and any risks for the Company. Both in the information-gathering phase and in the decision-making phase, the Board of Directors shall attentively examine the Transactions. This analysis shall be supported by adequate documentation showing the reasons of the Transactions, their profitability, and that the transaction conditions are materially correct. In particular, should the Transaction conditions be equivalent to market or standard conditions, detailed supporting documentation shall be provided.

The Board of Directors decides on the Transactions after 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") which examines the interests of the Company in reference to the Transaction, its profitability and if its conditions are materially correct.

In order to issue non-binding advice, the 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 direct or indirect personal interest in the Transaction. These experts may express an opinion or draft a report on the economic conditions and/or the technical aspects and/or on the legitimacy of the Transactions. The maximum amount that may be charged to the Company shall be proportional to the value of the Transaction, and in any case it shall not exceed € 20,000 for each single transaction.

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

The decision of the Board of Directors may be taken despite advice to the contrary from 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 full information on the interests

of the Company, reasons, profitability and material correctness of the Transactions for the Company and the group to which the Company belongs (the "TXT Group"). Should said Transactions be the responsibility of the Shareholders' Meeting or should they be 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 up to the amount decided by the Shareholders' Meeting pursuant to Article 2398, paragraph 3, of the Italian Civil Code.

Finally, resolutions on remuneration of Directors who cover particular offices not included in the aforementioned examples and of Managers with strategic responsibilities are excluded from this procedure, provided that:

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

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

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

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

This procedure is available on the Company's website at the following address:  
<http://www.txtgroup.com/it/governance/Pagine/otherinformation.aspx>

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

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

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

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

Without prejudice to the provisions of the second last paragraph of this article, the appointment of the Board of Directors is based on the lists drafted by the shareholders in which the candidates are listed progressively. The number of candidates in each list is not greater than the number of members to be elected.

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

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

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

for by Consob Regulation at least 21 days before the date fixed for the Shareholders' Meeting.

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

Lists that do not comply with the provisions previously described are considered as not submitted. Each candidate may appear in one list only, under penalty of being ineligible to qualify as a candidate.

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

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

Two standing auditors and two alternate auditors are drawn from the list that received the greatest number of votes during the Shareholders' Meeting, on the basis of the progressive order 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 and all the shareholders participating in the Shareholders' Meeting shall cast their vote. Candidates from the list that obtain a simple majority of votes are deemed elected.

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

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

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

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

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

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

Outgoing auditors may be re-elected.

## **14. COMPOSITION AND FUNCTIONS OF THE BOARD OF STATUTORY AUDITORS (Article 123-bis, paragraph 2 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 IIIa 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 2013. No significant changes in the Board of Statutory Auditors took place after the end of the reporting period.

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

### 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. He 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 2013 the Board held 6 meetings of an average duration of two hours. 6 meetings have been scheduled for 2014, and the first one was held on 27 February 2014.

The Board of Statutory Auditors assessed the independence of its members (*Criterion 8.C.1.*). In performing the above-mentioned assessment, the Board complied with the criteria provided for by the Code concerning Directors' independence (*Criterion 8.C.1.*).

The Board of Directors made it possible for statutory auditors to participate, subsequent to their appointment and during their term of office, in initiatives aimed at providing them with adequate knowledge of the business sector in which the Company operates, the corporate dynamics and their development, as well as the relevant regulatory framework of reference (*Criterion 2.C.2.*). Considering the Board of Statutory Auditors' composition and the members' seniority, the application of the principle is fulfilled with thorough discussions and meetings with management.

According to corporate policies, in the event that an auditor who, on his own behalf or on behalf of third parties, has an interest in a specific corporate transaction, he or she shall promptly and exhaustively report to the other auditors and to the Chairman about nature, terms, origin and scope of his/her interest (*Criterion 8.C.3.*).

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

While performing its activities, the Board of Statutory Auditors coordinated with the internal audit function and the Risks and Internal Controls Committee (*Criterion 8.C.4. and 8.C.5.*).

## **15. RELATIONSHIP WITH SHAREHOLDERS**

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

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

During 2013 the Company took part in the "Star conference" events organised by Borsa Italiana, both in Milan on 26 March 2013, and in London on 2 October 2013. The Company also organised two presentations to investors and analysts during the Shareholders' Meetings held on 23 April 2013 and 17 December 2013, as well as various one-to-one meetings with investors.

## **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 one share one vote principle applies.

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

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

Each shareholder entitled to participate can be represented during the Shareholder's Meeting by means of a

written proxy. The relevant form is available on the Company's website ([www.txt.it](http://www.txt.it), Corporate Governance, Shareholders' Meeting 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.

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, as per the law, upon proposal of the Directors, or which are based on a project or report prepared by them.

Shareholders entitled to participate in the Shareholders' Meeting may submit questions on the agenda even before the Shareholders' Meeting, by sending a registered letter to the Company's registered office or 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.

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

The recommendation included in the Corporate Governance Code considering the Shareholders' Meetings as an opportunity for developing a constructive dialogue between the Board of Directors and shareholders has been carefully analysed and fully shared by the Company. 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 9.C.3.*).

To this end, the Shareholders' Meeting held on 7 April 2001 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 (*Comment to Article 9 of the Code*).

During 2013 the Company's capitalisation rose sharply thanks to its good performance and the positive impact of the purchase of Maple Lake. At 31 December 2013 the Company's market capitalisation was € 107.2 million, compared to € 32.6 million at 31 December 2012. The shareholding structure was unchanged. It was not deemed necessary to submit to the Shareholders' meeting amendments to the By-Laws on the percentages established for exercising shares and the measures aimed at protecting minorities (*Criterion 9.C.4.*).

During 2013 two Shareholders' Meetings were convened, one ordinary and the other extraordinary.

The Ordinary Shareholders' Meeting of 23 April 2013 approved the 2012 financial statements, the dividend distribution, the Remuneration Report, and the treasury share purchase plan.

The Extraordinary Shareholders' Meeting of 17 December 2013 approved a free share capital increase.

In reference to Article 7 of the Corporate Governance Code relating to the remuneration of directors and managers with strategic responsibilities, the Shareholders' Meeting of 23 April 2013 approved the remuneration policy document prepared by the Remuneration Committee and the Board of Directors.

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

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

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

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

**TABLE 1: Shareholding structure**

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	3,112,228	26.32	29.77
Alvise Braga Illa	YES	1,598,274	13.52	15.29
Lazard Freres Gestions	YES	312,000	2.64	2.98
Marco Edoardo Guida	YES	252,000	2.13	2.41
Treasury shares	YES	1,368,120	11.57	-
Outstanding shares	YES	5,181,242	43.82	49.55
<b>Total shares</b>		<b>11,823,864</b>	<b>100</b>	<b>100</b>

**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 (2)	Internal Controls Committee	ICC attendance %	Remuneration Committee	RC attendance %
Chairman	Alvise Braga Ila	20.4.2011	2013 Fin. Statements Approval	Minority	x				100%	-				
CEO	Marco Edoardo Guida	20.4.2011	2013 Fin. Statements Approval	Minority	x				100%	-				
Director	Paolo Enrico Colombo	20.4.2011	2013 Fin. Statements Approval	Minority	x				100%	-				
Director	Andrea Cencini	20.4.2011	2013 Fin. Statements Approval	Minority	x				100%	-				
Director	Franco Cattaneo	20.4.2011	2013 Fin. Statements Approval	Majority		x	x	x	80%	1	x	100%	Chairman	100%
Director	Adriano De Maio	20.4.2011	2013 Fin. Statements Approval	Minority		x	x	x	80%	2	Chairman	100%	x	100%
Director	Teresa Cristiana Naddeo	10.5.2012	2013 Fin. Statements Approval	(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

(2) This column shows if Board members serve as a Director or Statutory Auditor in other companies listed on Italian regulated markets. Such other offices are detailed in the Report on Corporate Governance. A full disclosure of all offices held is provided in the Board of Statutory Auditors' Report to the Financial Statements.

**TABLE 3: Composition of the Board of Statutory Auditors**

Office	Name	In office since	In office until	List	Indep. pursuant to code	BoSA attendance %	No. of other offices (1)
Chairman	Raffaele Valletta	20.4.2011	2013 Fin. Statements Approval	Minority	x	100%	-
Standing	Fabio Maria Palmieri	20.4.2011	2013 Fin. Statements Approval	Majority	x	100%	-
Standing	Luigi Carlo Filippini	20.4.2011	2013 Fin. Statements Approval	Majority	x	100%	-
Alternate	Angelo Faccioli	20.4.2011	2013 Fin. Statements Approval	Minority			
Alternate	Pietro Antonio Grignani	20.4.2011	2013 Fin. Statements Approval	Majority			

No statutory auditor left office during 2013

Quorum required to submit lists during the most recent appointment: 2%

No. of meetings held during 2013: 6

(1) This column shows if Board members serve as a Director or Statutory Auditor in other companies listed on Italian regulated markets. Such other offices are detailed in the Report on Corporate Governance. A full disclosure of all offices held is provided in the Board of Statutory Auditors' Report to the Financial Statements.

