



ANNUAL REPORT ON CORPORATE GOVERNANCE & OWNERSHIP STRUCTURES
pursuant to Section 124-*bis* of the Italian Finance Act, Section 89-*bis* of the Consob Regulations for
Issuers, and Section IA.2.6 of the Instructions to the Stock Exchange Regulations

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GLOSSARY

Code: the Corporate Governance Code for Italian Listed Companies approved in March 2006 (as amended in March 2010) by the Corporate Governance Committee and promulgated by Borsa Italiana S.p.A. (the entity responsible for the organization and management of the Italian Stock Exchange)

Civil Code/C.C.: the Italian Civil Code

Board: Board of Directors of the Issuer

Issuer/Company: BasicNet S.p.A.

Financial period: financial year covered by the Report

Instructions to the Stock Exchange Regulations: Instructions to Regulation for Markets organized and managed by Borsa Italiana S.p.A.

Stock Exchange Regulations: Regulation for Markets organized and managed by Borsa Italiana S.p.A.

Consob Regulations for Issuers: Regulation for Issuers pursuant to Consob Resolution 11971/1999

Consob Regulations for Markets: Regulation for Markets pursuant to Consob Resolution 16191/2007

Consob Regulations for Related Party Transactions: Regulations issued by Consob (the Italian Regulatory Commission for Companies and the Stock Exchange) pursuant to Consob Resolution 17221 of March 12, 2010 (as subsequently amended)

Report: Annual Report on Corporate Governance & Ownership Structures that companies are required to prepare and present pursuant to Section 123-*bis* of the Italian Finance Act

Italian Finance Act: Decree-Law 58 passed on February 24, 1998

CORPORATE GOVERNANCE REPORT

1. PROFILE OF ISSUER

BasicNet S.p.A. adopts a system of management and control based on a Board of Directors, assisted by an Internal Audit Committee and a Remuneration Committee, and a Board of Statutory Auditors, each with clearly defined terms of reference, responsibilities and powers, as prescribed by the Italian Civil Code, other laws or regulations and the BasicNet By-laws. The aforementioned Boards are elected at the Annual General Meeting and remain in office for a three-year term.

As required by law, accounting audits are performed by independent auditors.

General Meetings represent the totality of the shareholders' convened to pass resolution, whether by way of ordinary or extraordinary resolution, on matters attributed thereto by law or applicable By-laws.

Completing the corporate governance framework is the System of Internal Control, the Code of Ethics and Best Practice and, not least, the structure of powers and delegations and the organizational framework.

2. OWNERSHIP STRUCTURE AT MARCH 18, 2013 (Section 123-*bis*, Subsection 1, of Italian Finance Act)

a) Share Capital Structure (Section 123-*bis*, Subsection 1a), of Italian Finance Act)

Share capital, fully subscribed and paid-in, amounts to Euro 31,716,673.04 and is represented by 60,993,602 ordinary shares, par value Euro 0.52 each.

At the time of writing, the Company holds 3,327,181 treasury shares or 5.45% of the share capital. The Company has not issued other financial instruments attributing the right to subscribe newly issued shares.

No share-based incentive plans giving rise to share capital increases, script issues or otherwise, have been authorized.

b) Restrictions on the Transfer of Shares (Section 123-*bis*, Subsection 1b), of Italian Finance Act)

At the date hereof, there are no restrictions on the transfer of shares.

c) Substantial Stakeholders (Section 123-*bis*, Subsection 1c), of the Italian Finance Act)

As resulting from the notifications communicated pursuant to Section 120 of the Italian Finance Act and from the entries recorded in the Register of Shareholders and, not least, from the information communicated by the Shareholders, the Directors have been notified of the following interests of 2.0 per cent or more in the issued share capital of the Company as at December 31, 2012:

Stakeholder	Direct Stakeholder	% ordinary share capital	% capital with voting rights
Marco Daniele Boglione	BasicWorld s.r.l.	36.187%	36.187%
Marco Daniele Boglione	Marco Daniele Boglione	0.292%	0.292%
<i>Total</i>		<i>36.479%</i>	<i>36.479%</i>
Wellington Management Company LLP	Wellington Hedge Management LLC	5.010%	5.010%
Wellington Management Company LLP	Wellington Global Holdings Ltd.	5.620%	5.620%
<i>Total</i>		<i>10.630%</i>	<i>10.630%</i>
BasicNet S.p.A.	BasicNet S.p.A.	5.455%	5.455%
Norges Bank Investment Ltd.	Norges Bank Investment Ltd.	5.380%	5.380%
Francesco Boglione	Francesco Boglione	4.556%	4.556%
Golden Step Ltd	Golden Step Ltd.	2.790%	2.790%

d) Shares Granting Special Rights (Section 123-*bis*, Subsection 1d), of Italian Finance Act)

No shares granting special right of control have been issued.

e) All-Employee Share Ownership Plans: voting right exercising mechanism (Section 123-*bis*, Subsection 1e), of Italian Finance Act)

There are no all-employee share ownership plans.

f) Restrictions on Voting Right (Section 123-*bis*, Subsection 1f), of Italian Finance Act)

There are no restrictions on voting rights.

g) Shareholder Pacts or Covenants (Section 123-*bis*, Subsection 1g), of Italian Finance Act)

At the time of writing, there are no Shareholder Pacts or Covenants.

h) Change of Control Clauses (Section 123-*bis*, Subsection 1h), of Italian Finance Act) and **Takeover statutory provisions** (Section 104, Subsection 1-*ter*, and Section 104-*bis*, Subsection 1, of Italian Finance Act).

At the time of writing, the Loan Facility Agreement attaching to the Euro 19 million loan taken out part way 2007 in relation to the Superga® trademark acquisition requires, among the other things, and as is customary for such kind of financing transactions, the commitment not to change the stakeholder base in the share capital of BasicWorld S.r.l., the company that holds a 36.187% stake in the share capital of BasicNet S.p.A. and, not least, the stakeholder of reference. Contemplated more pointedly is the following:

- that Mr. Marco Daniele Boglione shall continue to hold (whether directly or indirectly) a 51% stake or more in the share capital of BasicWorld S.r.l.; and
- that the aggregate stake held, directly or indirectly, by BasicWorld S.r.l. in the share capital of BasicNet S.p.A., shall not step back to less than 30% of the related share capital thereof or, in any case, by a stakeholding with power to cast the majority of votes of the Company.

Non-observance, if any, of the contract clauses referred to above (unless the cause and reason giving rise to eventual contract breach is eliminated within thirty days from when the Agent Bank delivers contract breach notice to the Company) shall entitle lender banks to put in place contract remedies, including therein, contract termination and forfeiture of term.

The Extraordinary Annual General Meeting held on April 29, 2011 passed resolution approving, among the other things, the motion to amend Article 16 – *Powers of the Board of Directors and Representation in Law* – of the BasicNet By-laws in order to endow the Board of Directors with the authority to put in place, at any moment in time and with no need for approval by the Meeting of Shareholders, defensive measures to counteract the achievement of the aims of any takeover bid or public offering, pursuant to Article 104 of the Italian Finance Act, as amended by Section 1 of Decree-Law 146 of September 25, 2009. In particular, incorporated within Article 16 were the following two paragraphs: "*The Board of Directors and its delegated officers, if any, shall have the authority to undertake, with no need for approval by shareholders' meeting, any deed or action that might hinder the achievement of the objectives of a takeover bid or public offering, from the moment in which the decision or obligation to launch the bid or offering was communicated or published up to the moment in which such a bid or offering is completed or reaches expiration.*

The Board of Directors and its delegated officers, if any, shall also have the authority to implement in whole or in part, any such decision, not falling within the normal course of business, taken prior to receiving the communication referred to above and that, upon implementation, might hinder the achievement of the goals and objectives of a takeover bid or offering."

i) Delegation to Increase Share Capital and Authority to Purchase Treasury Shares (Section 123-*bis*, Subsection 1m), of Italian Finance Act)

- Delegation to Increase Share Capital

Pursuant to Article 2443 of the Italian Civil Code, no delegation to increase share capital has been conferred on the Board of Directors.

- Delegation pursuant to the Italian Civil Code

Pursuant to Article 2420-*ter* of the Italian Civil Code, no delegation to increase share capital has been conferred on the Board of Directors.

- Authority to Make Treasury Share Purchases

The Annual General Meeting held on April 27, 2012 passed resolution, effective for a period of twelve months, i.e. up to conclusion of the Annual General Meeting called to approve the Annual Report & Accounts for the year ended December 31, 2012, to give the Company the authority to make market purchases or market disposals of a maximum number of ordinary shares which, when taking into account those already held in portfolio, shall not surpass the legally required threshold, representing a maximum financial commitment of Euro 5 million. Pursuant to the authority given, the Company purchased 514,468 treasury shares or 0.84% of the share capital, at an average (Euro 1.77) of the market quotations for an ordinary share, thereby entailing an aggregate outlay of Euro 912,524. Overall, at the time of writing, BasicNet holds 3,327,181 treasury shares (or 5.45% of the share capital), representing an aggregate capital investment of Euro 5,551,236.

l) Management and Coordination (Article 2497 *et seq.* of Italian Civil Code)

BasicNet S.p.A. is not subject to management and coordination pursuant to Article 2497 *et seq.* of the Italian Civil Code and has independent decision-making powers to govern its financial and operating policy decisions.

BasicNet S.p.A. is not subject to management and coordination by Basic World S.r.l., the company that holds a 36.187% stake in share capital, inasmuch no restriction whatever exists, whether defined by contract or through organizational procedures, on the independent decision-making powers of BasicNet S.p.A.

Pursuant to Article 2497-*bis* of the Italian Civil Code, its Italian subsidiaries, whether held directly or indirectly, have identified BasicNet S.p.A. as the entity exercising management and coordination. This activity consists in indicating the general strategic and operating guidelines of the Group and takes tangible form in the definition and updating of the System of Internal Control, the Corporate Governance model and the corporate structure, the issuance of a Code of Conduct applied Groupwide, and setting forth the general policies regarding the management of human and financial resources, purchasing, marketing and communication. Furthermore, coordination of the Group, yet again with regard to its Italian subsidiaries, includes the centralized management at BasicNet S.p.A. of treasury or cash pooling, corporate and accounting internal audit and Information Technology. The foregoing enables economies of scale, and appropriate management control and coordination.

m) Other Information

Of note:

- the information and disclosures required under Section 123-*bis*, Subsection 1i), of the Italian Finance Act ("*agreements between company and directors – which provide for indemnities in the event of resignation or dismissal without just cause or work relations are caused to cease due to takeover*"), can be found in the Remuneration Report, published in application of Section 123-*ter* of the Italian Finance Act, which can be accessed through the BasicNet Group website at www.basicnet.com / AGM 2013 section;
- the information and disclosures required under Section 123-*bis*, Subsection 1l) of the Italian Finance Act ("*rules applying to the appointment and replacement of directors and members of the control body or supervisory council, and to amendments to the articles of association if different from those applied as a supplementary measure*"), can be found in Section 4.1 of the Report regarding the Board of Directors (Section 4.1).

3. COMPLIANCE (Section 123-*bis*, Subsection 2a), of Italian Finance Act)

The System of Corporate Governance adopted by BasicNet S.p.A. integrates the framework of regulations and procedures, whether outlined by the By-laws or by the provisions of law, in which the system of management and control of the Company and of the Group substantiates.

This is based, essentially, on the principles and recommendations set forth in the Corporate Governance Code for Italian Listed Companies promulgated by Borsa Italiana S.p.A., which may be accessed by the general public through the Borsa Italiana website (www.borsaitaliana.it).

As published on the Company's website at www.basicnet.com (in the BasicNet Corporate Governance section), the purpose of the Corporate Governance Annual Report is to illustrate the Group's Corporate Governance framework, as well as the level of compliance of its System of Corporate Governance vis-à-vis the Corporate Governance Code promulgated by Borsa Italiana S.p.A. Over the course of 2012, the Board of Directors passed resolution to modify certain aspects of the system of Risk Management & Internal Audit that forms part the Group's governance structure to align it with the new requirements of the Corporate Governance Code. Any modification needed to reflect the new requirements of the Code regarding the composition of the Board and related Board Committees will be assessed on occasion of their election or re-election due to take place at the upcoming AGM on April 29, 2013, as so required by Section VIII "*Main Principles & Temporary Regime*" of the Code, approved by the Borsa Italiana Corporate Governance Committee in December 2011.

Neither BasicNet nor its subsidiaries having strategic relevance are subject to non-Italian provisions of law affecting the System of Corporate Governance.

4. BOARD OF DIRECTORS

4.1. APPOINTMENT AND REPLACEMENT (Section 123-*bis*, Subsection 1.I), of Italian Finance Act)

Pursuant to Article 13 of the BasicNet By-laws, the directors are appointed on the basis of slates, except for one to be elected by minority Shareholders who, alone or together with other Shareholders, hold a total number of shares having such voting rights as to represent the percentage of the company's capital required by law at such time. For FY 2013, as in prior years, the percentage referred to earlier has been set at 4.5% (Consob Resolution 18452 issued on January 30, 2013).

Under the By-laws, the slates, attesting the members who submitted them and the aggregate percentage of ownership held, plus the curriculum vitae of the candidates, shall be filed at the company's registered office within the legally required timescale. Along with each slate, and by the timelines referred to above, declarations shall be filed pursuant to which the individual candidates agree to their candidacy and attest, under their responsibility, that there are no grounds for ineligibility or conflicts of interest, and that they meet the requisite of independent director as such term is defined by law and, not least, the administration and control appointments, if any, held at other companies. One member at least of the Board of Directors, or should the Board of Directors be comprised by more than seven members, two members at least shall possess the requisite of independent director as such term is defined by law. Each slate shall list one candidate at least having the requisite of independent director, as appearing first on the slate.

Any slate not complying with the foregoing shall be disregarded. In the number determined by Shareholders' Resolution, the Board of Directors shall be elected as follows:

- a. all the directors to be elected, except for one, arranged in the progressive order in which they are listed on the slate, shall be chosen from the slate that obtains the greatest number of the votes; and
- b. as listed first on the slate, the remaining director to be elected shall be taken from the slate that obtains the second greatest number of the votes.

Slates not attaining a percentage of votes equal to, or in excess of, the percentage of votes prescribed by the By-laws shall be disregarded. In the case of a tie, new voting right shall be cast by the Meeting as a whole and shall culminate into the candidate first listed on the slate that obtains the simple majority of votes being elected. In appointing directors who for any reason whatever have not been appointed pursuant to the procedure referred to above, the Meeting shall vote on the basis of the majority required by law.

The Extraordinary Annual General Meeting held on April 27, 2012 passed resolution approving the motion to amend Article 13 (*Board of Directors, Board Committees and Delegated Officers*) and Article 17 (*Board of Statutory Auditors*) of the BasicNet By-laws, in response to a mandatory 'gender quota' legal and regulatory requirement.

Slate voting was adopted for the first time at the Annual General Meeting held on April 30, 2010 with regard to the appointment, on the basis of slates, of the Board of Directors currently in office. On that occasion, the Company invited Shareholders who, alone or together, represented 4.5% or more of the share capital (as established by Consob Resolution 17148 issued on January 27, 2010), to

deposit, at the Company's registered office, the candidature slates, along with the relevant documentation, at least fifteen days ahead of the date for the Meeting on the first call. Deposited within the aforesaid timeline was one, and only one, candidature slate by the stakeholder BasicWorld S.r.l., titleholder to 35.792% of the ordinary shares. The documentation referred to above may be accessed through the Company's website at www.basicnet.com. Other than those contemplated by the Italian Finance Act, BasicNet is not subject to other legal and regulatory requirements in respect of the composition of the Board of Directors.

4.2. COMPOSITION (Section 123-*bis*, Subsection 2d), of Italian Finance Act)

The Company is administered by a Board of Directors consisting of not less than five and not more than fifteen members.

The Board of Directors in office was appointed at the AGM held on April 30, 2010 and shall reach term of office on approval of the Annual Report & Accounts for the year ended December 31, 2012. The Board of Directors is formed by nine members: Chairman Marco Daniele Boglione (in office since 1984); Deputy Chairman Daniela Ovazza (in office since 1994); CEO Franco Spalla (in office since 2001); Director Paola Bruschi (in office since 2007); Director Paolo Cafasso (in office since 1995); Director Giovanni Crespi (in office since 2007); Director Alessandro Gabetti Davicini (in office since 2012); Director Adriano Marconetto (in office since 2007), and; Director Carlo Pavesio (in office since 1994).

In terms of its composition, the Board of Directors is in line with the mandatory one-fifth "gender quota" requirement recently introduced by Consob.

The biographies of the Directors in office may be accessed through the Group/Corporate Bodies section of the Company's website at www.basicnet.com.

Executive Directors are: Chairman Marco Daniele Boglione; CEO Franco Spalla; Delegated Director & Group Financial Officer Paolo Cafasso, and; Delegated Director & Chief Operational Officer Paola Bruschi.

The bespoke Executive Directors also hold executive appointments in the other companies of the Group. And more pointedly:

Marco Daniele Boglione: Chairman of Basic Trademark S.A.; Board Director of RdK0 S.r.l.; Chairman of Superga Trademark S.A.; Chairman of BasicOutlet S.r.l.; Chairman of BasicCRS S.r.l.; Chairman of alloSpaccio S.r.l.; Delegated Director of Fashion S.p.A.; Board Director of BasicItalia S.p.A., and; Chairman of Jesus Jeans S.r.l.

Franco Spalla: Chairman of Basic Properties America, Inc.; Chairman of Basic Properties B.V.; Chairman of BasicNet Asia Ltd.; CEO of AnziBesson Trademark S.r.l.; CEO of Fashion S.p.A.; Board Director of BasicItalia S.p.A.; Board Director of Superga Trademark S.A.; Board Director of Basic Trademark S.A., and; Director of the Italian Branches of Superga Trademark S.A. and Basic Trademark S.A.

Paolo Cafasso: CEO of Basic Village S.p.A.; Delegated Director of RdK0 S.r.l.; Delegated Director of BasicOutlet S.r.l.; Delegated Director of alloSpaccio S.r.l.; Delegated Director of BasicCRS S.r.l.; Board Director of Basic Properties America, Inc.; Chairman of Basic Spain S.L.; Board Director of BasicNet Asia Ltd., and; Board Director of Basic Properties B.V.

The Board of Directors comprises two **Independent Directors**: Giovanni Crespi and Adriano Marconetto.

Other appointments

Other appointments held by the Executive Directors in the Group companies referred to above, and other appointments held by the Directors at other listed companies or at companies of significant interest are as follows:

- *Marco Daniele Boglione*: CEO of BasicWorld S.r.l.;
- *Daniela Ovazza*: Board Director of TESA S.p.A.; Non-Executive Board Director of C.L.S. S.p.A.;
- *Giovanni Crespi*: Independent Board Director of Innovest S.p.A.; Board Director of Sirti S.p.A.; Board Director of BasicItalia S.p.A.; Board Director of HIIT S.p.A., and; Board Director of UnoPiù S.p.A.;

- *Alessandro Gabetti Davicini*: Board Director of Fenera Holding S.p.A.; Board Director of Euromobiliare Asset Management SGR S.p.A.; Board Director of Tosetti Value S.r.l.; Board Director of SDM S.r.l., and Sole Director of Unico Pantarei S.r.l.;
- *Adriano Marconetto*: Board Director of Electro Power Systems S.p.A., and; Executive Chairman of ProxToMe Inc.;
- *Carlo Pavesio*: Chairman of the Board of Directors of BasicWorld S.r.l.; Independent and Non-Executive Board Director - Member of the Remuneration Committee and Chairman of the Oversight Committee - of Pininfarina S.p.A.; Board Director of Pininfarina Recchi Buildingdesign S.r.l.; Independent and Non-Executive Board Director, Chairman of the Internal Audit Committee, Chairman of the Oversight Committee, and Member of the Group Investing Commission of Reale Mutua Assicurazioni S.p.A.; Independent and Non-Executive Board Director and Chairman of the Remuneration Committee of Fenera Holding S.p.A.; Board Director of Fratelli Gancia & C. S.p.A.; Deputy Chairman and Board Director of Farmaceutici Procemsa S.p.A.; Board Director of Tosetti Value S.p.A.; Board Director of BasicItalia S.p.A.; Board Director of Banca Reale S.p.A., and; Member of the Oversight Board of Fondazione Piemontese per l'Oncologia.

Policy on Maximum Number of Appointments in Other Companies

The Board of Directors prefers not to express guidance on the maximum number of Directorship or Statutory Auditor appointments in other companies quoted on organized markets (whether in Italy or abroad), and in financial companies, banks, insurance companies or major corporations. The Board recognizes that exposure of its Directors or Statutory Auditors to other boards can broaden their experience and knowledge. Taking care to ensure that appointees have enough time to devote to the job, Directors and Statutory Auditors are therefore allowed to accept appointments subject to Board approval.

Induction Program

As a rule, Directors are expected (with effect from their appointment and over their term of office) to attend meetings of the Board, its Committees on which they serve, and the Annual Meeting of Shareholders; review materials distributed and make themselves available for financial reporting periodic updates and management briefings through the IT platform available to them (*BasicManagement* portal).

4.3. REMIT AND ROLE OF BOARD OF DIRECTORS (Section 123-*bis*, Subsection 2d), of Italian Finance Act)

The Board held eight meetings in 2012, each one of which lasting two hours on average, to pass resolution on the quarterly financial reports and accounts, the half-yearly financial report, and the annual financial statements and the motions to be submitted for approval at the Annual General Meeting 2012. As part of the business of each meeting of the Board, the Chairman of the Board of Directors of BasicItalia S.p.A. typically submits briefing papers (with effect from his appointment in July 2011) to assist in the understanding of legal, governance and regulatory developments as well as comments and feedback on the business to be discussed at the meeting and detailing progress against the goals the Board has approved.

As a rule, the briefing papers containing supporting information relevant to the debate are delivered to Directors and Statutory Auditors no later than two days ahead of the meetings (timeline identified as congruous by the Board of Directors).

In January 2013, the Company published the calendar setting out the dates set for the four Board meetings regarding the preparation of the draft financial statements and the approval of the consolidated financial statements for 2012 and for the approval of the results reported for the financial period.

Without prejudice to the matters that cannot be delegated pursuant to Article 2381.4 of the Italian Civil Code, the Board of Directors:

- a. examines and approves the Company's strategic, operation and financial plans and the corporate structure of the Group it heads, and the BasicNet system of corporate governance of Issuer and of the Group;

- b. evaluates the adequacy of the organizational, administrative and accounting structure of the Company and its subsidiaries, as established by the Managing Directors, with particular regard to the system of internal control and the management of conflicts of interest. Other than the trademark titleholder companies, identified as strategic are: BasicItalia S.p.A., the Group's Italian Licensee; Basic Village S.p.A., the company managing and operating the Basic Village proprietary property complex, and; BasicNet Asia Ltd., the company providing services - mainly sourcing center monitoring services – across the Asian territorial landscape;
- c. delegates powers to the CEOs and revokes them; it specifies the limits on these delegated powers, the manner of exercising them and the frequency, as a rule no less than once every three months, with which the bodies in question must report to the Board on the activities performed in the exercise of the powers delegated to them, as set forth in Article 13 of the By-laws;
- d. determines, after examining the proposal of the Remuneration Committee and consulting with the Board of Statutory Auditors, the remuneration of the CEOs and of those Directors who are appointed to special positions within the Company and, if the Meeting of Shareholders has not already done so, determines the total amount to which the members of the Board are entitled;
- e. assesses the general performance of the Company, paying particular attention to the information received from the delegated bodies, and periodically comparing the results achieved with those planned;
- f. examines and approves in advance transactions carried out by the Company and its subsidiaries having a significant impact on the Company's profitability, assets and liabilities or financial position, paying particular attention to transactions on which one or more Directors hold an interest on their behalf or on behalf of third parties and, in more general terms, to transactions involving related parties. Deemed to be strategic are all those strategic and extraordinary transactions submitted for review by the Board of Directors;
- g. assesses, at least once a year, the size, composition and performance of the Board of Directors and its Committees, eventually characterizing new professional figures whose presence on the Board would be considered appropriate; and
- h. draws up and adopts the Corporate Governance Report and defines the Group Corporate Governance Guidelines, providing annually information as to the related application thereof.

And lastly, Article 16 of the By-laws attributes to the Board the authority to pass resolutions, pursuant to the requirements of law, with regard to mergers by incorporation or spin-offs, headquarter relocation across the homeland and the opening or closing of secondary offices, identifying which Directors are empowered to represent the Company in law, and amending the By-laws to reflect changes introduced by law. Additionally, within the limits established by Article 2410.1 of the Italian Civil Code, the Board of Directors is empowered to issue debentures.

The Board of Directors, in coordination with the Risk & Internal Audit Committee, has assessed for adequacy the organizational, administrative and accounting structure of BasicNet S.p.A. and the organizational, administrative and accounting structure of its subsidiaries having strategic relevance, in particular with regard to their System of Risk Management & Internal Audit and the management of conflicts of interest. Indeed, seamless continuity in the composition of the Boards of Directors of the Group companies facilitates those functions of control, timely knowledge and coordination of the instructions given to the subsidiaries. Also, as set forth in Article 13 of the By-laws, the Delegated Bodies report to the Board of Directors and to the Board of Statutory Auditors, no less than once every three months, on occasion of the Board Meetings, i.e. remit in writing addressed to the Board of Directors and to the Board of Statutory Auditors, reporting on operating and financial performance and business prospects and, not least, significant transactions, whether in terms of size or characteristics, put in place by the Company or its subsidiaries, with particular regard to the management of conflicts of interest or transactions subject to influence by the entity exercising management and control, on own behalf or on the behalf of others. In general, significant transactions, such as business acquisitions, disposals or divestments, new sponsorships, sureties, guarantees or derivative financial instrument hedges, are submitted to the Board of Directors.

At the meeting held on March 18, 2013, the Board of Directors assessed the overall effectiveness of the Board against quantitative and qualitative performance targets as well as progress against the goals targeted in financial 2011, taking into full account the attendance of all the Directors at the

Board meetings and, not least, the tangible contribution made by individuals in Board debate. By way of attendant consequence, the Board is deemed to be appropriate, whether in terms of capability, member-count or remit, to provide entrepreneurial leadership in the pursuance of BasicNet S.p.A. and Group priorities, whilst maintaining and operating within a defined structure of prudent and effective controls. In harmonization with the CEO, the Chairman of the Board manages the Board agenda, taking into full account the information about the Company's performance, thus enabling the Board to take effective decisions and provide advice to support the efforts exerted by the Company. Also deemed to be balanced was the ratio of Executive to Non-Executive Directors.

At the Meeting held on April 30, 2010, resolution was passed, on Directorship appointment, not to impose on the Directors elected the non-competition clause pursuant to Article 2390 of the Italian Civil Code, insofar as the Directors are allowed to hold like-for-like appointments in Group companies.

However, all and any appointments that might be accepted by the Directors in competitor groups must be reported immediately to the Board.

4.4. DELEGATED BODIES

At the Board meeting held on April 30, 2010, the Board of Directors assigned:

- to the Chairman, Marco Daniele Boglione, all the powers of ordinary and extraordinary administration by single signature, within the limitation of Euro 3,000,000 with regard to purchasing and/or selling shares or share units in companies, businesses, business lines or trademarks, 5 million with regard to the yearly cost attaching to sponsorships, 75% of the Company's consolidated net capital with regard to contracting financial debt, and Euro 2,750,000 with regard to giving secured or other guarantees, and patronage letters (excepting therefrom subsidiaries);
- to the CEO, Franco Spalla, all the powers of ordinary and extraordinary administration to accomplish, by single signature, within the limitation of Euro 2,000,000 the purchase and/or sale of shares or share units in companies, businesses, business lines or trademarks, 2 million with regard to the yearly cost attaching to sponsorship contracts, 75% of the Company's consolidated net capital with regard to contracting financial debt, and Euro 2,000,000 with regard to giving secured or other guarantees, and patronage letters (excluding therefrom subsidiaries).

At the time of writing, there are no interlockin directorates.¹

At the bespoke Board meeting held on April 30, 2010, the Board of Directors also assigned to Board Director Paolo Cafasso, in his capacity of Group Financial Officer, the necessary powers for the financial and administrative management of the Company.

Chairman of the Board of Directors

At the Board meeting held on April 30, 2010, the Board of Directors recognized that the concentration of corporate offices in one single individual, i.e. the office of Chairman and Delegated Director in Mr. Marco Daniele Boglione, is justified by continuity and seamless Corporate Governance practice, insofar as he is the founder of the Group and has been involved, right from onset, in the activity pursued by the Company.

As placed in evidence earlier in point 2.C, Mr. Marco Daniele Boglione holds an aggregate of 22,250,000 shares, or 36.479% of the share capital, of which 22,071,666 shares, or 36.187% of the share capital, indirectly through BasicWorld S.r.l., held 90.58%, and, directly, 178,334 shares, or 0.29% of the share capital.

Executive Committee (Section 123–*bis*, Subsection 2d), of Italian Finance Act)

No Executive Committee whatever has been set up within the Board of Directors.

Disclosures to the Board

Details thereon can be found earlier in point 4.3.

¹ Under the Corporate Governance Code, the chief executive officer of issuer (A) shall not be appointed director of another issuer (B) not belonging to the same corporate group in the event that the chief executive officer of issuer (B) is a director of issuer (A)..

4.5. OTHER EXECUTIVE DIRECTORS

Other than Chairman Marco Daniele Boglione, the **Executive Directors** are: CEO Franco Spalla; Group Financial Officer & Delegated Director Paolo Cafasso; Chief Operational Officer & Delegated Director Paola Bruschi and, not least, Elisabetta Rolanda, Chairman of the Board of Directors of the strategic subsidiary BasicItalia S.p.A., and; Maurizio Ameri, Executive Deputy Chairman of the strategic subsidiary Basic Properties America, Inc.

4.6 INDEPENDENT DIRECTORS

The Board of Directors comprises two **Independent Directors**: Giovanni Crespi and Adriano Marconetto.

As so considered upon their appointment, the Board of Directors considered, during the Board meeting held on March 18, 2013, the independence of Board Director Giovanni Crespi and Board Director Adriano Marconetto, and whether there are any relationships or circumstances that are likely to affect, or could appear to affect, their independent judgment, as required by Consob Regulations and the Corporate Governance Code.

The criteria and procedures adopted in assessing their independence have been verified by the Board of Statutory Auditors. For FY2012, the Board of Statutory Auditors has reported the outcome of those assessments in its remit to the Meeting of Shareholders. As a result of adopting the procedures regarding related party transactions pursuant to Consob Regulation 17221 issued on March 12, 2010, the Independent Directors of the Company are called to express an opinion on the substantial and procedural fairness in transactions with related parties.

The Independent Directors meet without management present, generally prior to the meetings of the Board of Directors whenever they need to raise ideas or issues that they may otherwise be reluctant to bring up with management present, to share candid views about management's performance, and to discuss board operations.

No such needed emerged in 2012.

4.7 LEAD INDEPENDENT DIRECTORS

In relation to the recommendation of the Corporate Governance Code to appoint a lead independent director in the event that operational powers have been delegated to the Chairman of the Board of Directors, the Board of Directors, at the meeting held on April 30, 2010, recognized in the light of the composition of the Board of Directors and, not least, the size and organizational structure of the Company, that such concentration of corporate offices does not compromise the impartiality and balance required in the role of Chairman of the Board of Directors.

4.8 EXECUTIVE DIRECTOR SUCCESSION PLANNING

At the time of writing, no succession planning has been put in place by the Company for the eventual replacement of the Executive Directors; the BasicNet Board is delegated to address both Executive Director succession in the ordinary course of business and contingency succession in the case of unexpected events.

5. PROCESSING OF CORPORATE DISCLOSURES

At the meeting held on May 15, 2002, the Board approved the Procedure for internal processing and external disclosure of confidential information, as subsequently reviewed and integrated following implementation of Market Abuse Regulations. This Procedure set out the rules for establishing and managing, based on a specific computer-system process, the List of persons having access to inside or potential inside information.

In compliance with Section 114 et seq. of the Italian Finance Act, a new Code of Conduct on Internal Dealing was adopted as from April 1, 2006 for market disclosure on transactions involving BasicNet S.p.A. shares or other financial instruments linked thereto by "Relevant Persons" of the Group.

The Procedure can be found on the BasicNet website (www.basicnet.com).

No such cases were reported in 2012.

6. COMMITTEES WITHIN THE BOARD (Section 123-*bis*, Subsection 2d), of Italian Finance Act)

Other envisaged under the Italian Finance Act, the Company has neither set up committees within the Board nor united in one committee, and only one committee, the functions performed by two or more committees pursuant to the Italian Finance Act.

7. NOMINATION COMMITTEE

As assessed and deemed to be appropriate in the past, the Board of Directors does not anticipate, by way of attendant consequence of the Company's size and shareholder structure, the need to set up, within the Board, a Nomination Committee, also in the light of the fact that Directors, as contemplated by Article of the By-laws, are appointed on the basis of slates.

8. REMUNERATION COMMITTEE

At the meeting held on April 30, 2010, the Board established the Remuneration Committee comprising Non-Executive Director Daniela Ovazza, Non-Executive Director Carlo Pavesio and Independent Non-Executive Director Adriano Marconetto.

The Board retains that the Remuneration Committee, as formed in its actual composition of three Non-Executive Directors, one of whom being an Independent Director, carries out adequately its functions formulating proposals in line with Group goals and performance considering from time to time the commitment and performance delivered by the individual Delegated Directors. Committee recommendations have always received favorable opinions from the Board of Statutory Auditors.

No Director participates in meetings of the Remuneration Committee in which proposals are submitted to the Board of Directors relating to his/her remuneration.

In 2012, no recommendations were remitted to the Board of Directors by the Remuneration Committee.

As a rule, minutes of the Remuneration Committee recommendations are taken and included in the minutes of the Board meetings at which these were submitted.

The Remuneration Committee has the authority to access all and any information and/or business function in the pursuance of its duties.

9. REMUNERATION OF DIRECTORS

Further details and information about the matters discussed in this section can be found in the Remuneration Report published pursuant to Section 123-*ter* of the Italian Finance Act.

In a nutshell, the Group's structure does not envisage the presence of executive officers vested with strategic responsibilities who are not members of the Board of Directors of BasicNet S.p.A. or the Boards of Directors of its strategic subsidiaries.

The fees of the Directors are approved at the Meeting of Shareholders. The remuneration due to Directors vested with strategic responsibilities and the remuneration due to members of the Committees within the Board of Directors are determined by the Board of Directors, on remit by the Remuneration Committee, and having heard the opinion of the Statutory Auditors.

The Board of Director may establish an additional fee or bonus identified by the Board of Directors, upon recommendation from the Remuneration Committee, on the achievement, beyond consensus expectation, of specific and significant targets. Given the currently prevailing market environment, this is identified *ex-post*.

Indemnity to Directors in the event of resignation or dismissal without just cause or if their employment should terminate as a result of a takeover bid (Section 123-*bis*, Subsection 1i), of Italian Finance Act)

The information required under Section 123-*bis*, Subsection 1i), of the Italian Finance Code (*Agreements between Company and Directors which envisage indemnities in the event of resignation or dismissal without just cause or if their employment contract should terminate as a result of a takeover bid*) can be found in the Remuneration Report published pursuant to Section 123-*ter* of the Italian Finance Act on the Company's website at www.basicnet.com (in the BasicNet AGM 2013 section).

10. RISK MANAGEMENT & INTERNAL AUDIT COMMITTEE (Section 123-*bis*, Subsection 2 d), of Italian Finance Code)

In 2012, as a result of the new requirements introduced by the Corporate Governance Code in December 2011, the Board of Directors changed the name of the Internal Audit Committee to the Internal Audit & Risk Committee, redefining the related roles and responsibilities thereof in a new version of the Code.

At the meeting held on April 30, 2010, the Board established the Internal Audit & Risk Committee, as formed in its actual composition. The Internal Audit & Risk Committee is composed of three Directors, one of whom being an Independent Director. The Board then decided that the Internal Audit & Risk Committee members should be adequately and appropriately skilled in financial and accounting matters. Accordingly, appointed as member of the Internal Audit & Risk Committee was an Executive Director, in the person of Director Paola Bruschi, who, as mentioned earlier, is an Executive and the Chief Operational Officer of the Company, so as to better flank the work performed by the other members, who are Independent and Non-Executive Director Giovanni Crespi and Non-Executive Director Alessandro Gabetti Davicini. With effect from July 2011, Director Giovanni Crespi forms part of the Board of Directors of the BasicItalia S.p.A. and is vested with responsibility for the Company's risk management and internal audit.

In 2012, the Risk Management & Internal Audit Committee met on three occasions and had regular access to the business data and information whenever requested, and mainly examined:

- the reports prepared by the Internal Auditing and/or Oversight Committee in 2012;
- the annual report on the adequacy of the System of Risk Management & Internal Audit and the annual report on the accounting, administrative and organizational structure;
- the implementation of new procedures;
- the observance of accounting and financial disclosures and compliance with new rules and regulations; and
- significant disclosures on operating and financial performance .

Lasting about two hours each, the Risk Management & Internal Audit Committee meetings, at which minutes were taken, were attended by: Paolo Cafasso, Group Financial Officer & Executive Officer responsible for the preparation of the accounting and financial statement documents; and, Internal Auditing Chief Officer, and; Chairman of the Board of Statutory Auditors.

Tasks and duties of the Internal Audit & Risk Committee

The Committee remits in advance its opinion to the Board of Directors on matters concerning the nomination, revocation and remuneration of the Internal Audit Chief Officer and, not least, on the adequacy of the Company's overall framework for internal control over financial reporting and for other internal controls and processes.

In particular, the Committee assists the Board of Directors in discharging its duties relative to the system of risk management and internal audit. In respect thereof, the duties of the Committee shall be:

- to assess, in cooperation with the Executive Officer responsible for the preparation of the accounting and financial statement documents and with the independent auditors, the adequacy of adopted accounting principles and their uniformity in view of preparation of the consolidated financial statements and other accounting documents;
- to express opinions on specific aspects inherent to the identification of main risks
- to review periodic reporting, remitted by the Internal Audit function, about internal audit and risk assessment;
- to monitor the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;
- to require the Internal Audit function to carry out tests of control on specific operational areas, advising at the same time the chairman of the board of statutory auditors;
- report to the Board of Directors on the adequacy of the System of Risk Management & Internal Audit, once every six months at least, at the time the Annual Report and the First-Half Report are approved.

In the performance of its duties, the Committee may access the information and the necessary business functions, and may request the Board of Directors to take avail of independent expert advice.

11. SYSTEM OF RISK MANAGEMENT & INTERNAL AUDIT

The System of Risk Management & Internal Audit is an essential element of the corporate governance system. The System of Risk Management & Internal Audit facilitates the effectiveness and efficiency of company operations and helps to ensure reliable financial reporting and compliance with laws and regulations, other than contributing to the safeguarding of the company's assets.

The Board of Directors has ultimate responsibility for the System of Risk Management & Internal Audit, in respect of which the Board sets the guidelines and verifies periodically its adequacy and effectiveness to ensure that the main risks to which the Company and its subsidiaries are exposed are properly identified and managed. Put in place was a risk identification process that updates the main risks inherent to the strategic sectors in which the Group specializes for the purpose of defining and the nature and level of risk compatible with strategic goals and objectives.

The Corporate Governance Code, the Code of Conduct for the Sourcing Centers, and the Best Practice Model of Organization, Management & Control required under Decree-Law 231/2001, as subsequently integrated and amended, form an integral part of the System of Risk Management & Internal Audit. Although under continuous evolution and perfection, the code of conduct contained in the Control, Management & Organizational Model integrates and reinforces the systems of business control through the preparation and seamless update of the correlated procedures.

Internal Auditing is tasked with assessing for overall adequacy, efficiency and effectiveness the System of Risk Management & Internal Audit. In particular, given that certain functions are centralized with the parent company, Internal Auditing works toward assessing the regularity and functionality of the data streams to and from the subsidiaries having strategic relevance, as well as assessing for adequacy the computer-system platforms to ensure financial reporting of quality across the business.

In terms of System of Internal Control assessments, based upon the fact that neither the Internal Audit members nor the Board of Statutory Auditors placed in evidence any material weakness in the System of Internal Control, particularly with regard to transactions in potential conflict of interest, the Board of Directors confirmed, at the meeting held on March 18, 2013, that the System of Risk Management & Internal Audit, although under continuous evolution and perfection, provides reasonable assurance about the Company's and the Group's financial control framework, compliance with laws, regulations and policies and risk management processes

System of Risk Management & Internal Audit over financial reporting (Section 123-bis, Subsection 2b), of Italian Finance Act)

On enforcement of Decree-Law 262/2005 on the protection of savings, BasicNet put in place a project crafted around strengthening, where applicable, procedures and systems of internal control over financial reporting, defining the framework and frequency of internal financial controls, and attesting the adequacy of financial reporting.

The Group's System of Risk Management & Internal Audit over financial reporting (the 'System') is represented by a comprehensive set of rules and procedures adopted across all the "dot.com" entities to assure that reliable, accurate, complete and timely financial reporting is attained through an effective 'continuous assurance' process crafted around identifying, assessing and managing the main risks associated with the preparation and dissemination of financial information.

Other than designed toward providing reasonable assurance that the annual and interim financial reports and accounts – separate or consolidated – made available to the general public agree with the underlying accounting records and give a true and fair view of the entity's state of affairs and financial condition, the System is designed to provide assurance as to the adequacy and effective application of the administrative and accounting procedures throughout the period to which the accounting documents (yearly, half-yearly and/or quarterly financial report and accounts) relate and that these have been prepared under IAS/IFRS.

In defining the System, a risk assessment process was put in place to identify and assess events, known or unknown, that could affect adversely the achievement of financial reporting and financial control priorities. The risk assessment approach adopted enables focus on areas of higher risk and/or materiality, including those attributable to fraud. Risk identification and assessment was conducted at the inherent risk level, i.e. as though no controls were in place to eliminate, cut-out or mitigate the risk to an acceptable level. The risk identification and assessment process was developed with reference to both the company as a whole and at the process level. Once identified, the risks were assessed, taking into account both the qualitative and quantitative aspects for the second type of risk. Once assessed, specific controls were identified and designed to reduce to an acceptable level the risk arising from non-achievement of the System's objectives, whether at the Company or process level.

The System provides for:

- a set of rules and procedures to be followed in preparing the financial statements and the monthly financial reports, and accounting calendars designed to provide an effective exchange of data between the parent company and its subsidiaries;
- a process designed to identify and assess the main risks of error in accounting and financial reporting, pegged to a web-implemented control process having the capability to pinpoint mismatching; and
- a process built around assessing periodically the adequacy and effective application of controls, the latter monitored directly by the Internal Control Officer.

Based on the Best Practice Model of Organization, Management and Control required under Decree-Law 231/2001, the prevention and control activity encompasses controls linked to the assignment of responsibilities, powers and delegations, whether by separating tasks and duties or assigning diverse access rights to IT and computer-system applications, releasing authorizations, making reconciliations and verifying consistency.

11.1. EXECUTIVE DIRECTOR RESPONSIBLE FOR THE SYSTEM OF RISK MANAGEMENT & INTERNAL AUDIT

The Risk Management & Internal Audit Committee is assisted in its activity by Executive Director Paolo Cafasso, who, insofar as responsible for the preparation of the financial statements and, not least, in his capacity of Group Financial Officer, oversees the effectiveness of the Group's System of Internal Control.

In the performance of that role, he oversees the functionality of the System of Internal Control, steering a keen eye toward identifying the main business risks (operational, financial and compliance), giving substance and form to the guidelines outlined by the Board, looking after the planning, realization and management of the System of Internal Control, and verifying, on a continuing basis, the related overall adequacy, effectiveness and efficiency thereof, also with reference to the evolution followed by operating conditions and by the legislative and regulatory landscape.

11.2 INTERNAL AUDITING

Internal Auditing is tasked with assessing for overall adequacy, efficiency and effectiveness the System of Risk Management. & Internal Audit. In particular, given that certain functions are centralized with the parent company, Internal Auditing works toward assessing the regularity and functionality of the data streams to and from the subsidiaries having strategic relevance, as well as assessing for adequacy the computer-system platforms to ensure financial reporting of quality across the business. The Internal Auditing function forms part of the System of Internal Audit. On appointment, the Board also defined a fee for the Internal Auditing function, as deemed to be appropriate to the Group's structure.

The Internal Auditing function, which is not responsible for any operational area, has direct access to all and any information that may be deemed to be useful in the pursuance of its task. The Internal Auditing remit is delivered to the Internal Audit Committee, the Board of Statutory Auditors and the Risk Management & Internal Audit Executive Director.

Internal control consists primarily in monitoring the key performance indicators of certain Group companies, as accomplished using the on-line reporting tool (*Tableau de Bord*) extant in the BasicNet portal. Such reporting represents an important tool in real-time monitoring of book assets and business trending and performance: the data are made available by individual Group company and are analyzable by individual balance sheet and income statement item.

Taken as a whole, the Internal Auditing function has been assigned to an unrelated firm outside the Group. The function has been outsourced in that unrelated firm, which already cooperated in the same manner with the Group, insofar as deemed to have the qualifications necessary to carry out efficiently and effectively that role within the Group, on an independent and expert basis.

11.3 BEST PRACTICE MODEL PURSUANT TO DECREE-LAW 231/2001

The Corporate Governance Code, the Code of Conduct for the Sourcing Centers, and the Best Practice Model of Organization, Management & Control required under Decree-Law 231/2001, as subsequently integrated and amended, form part of the System of Risk Management & Internal Audit. The code of conduct set forth in the Best Practice Model, in continuous evolution, integrates and strengthens the business systems through the drafting and updating of the correlated procedures on a continuing basis.

To render the Corporate Governance Code, the Code of Ethics and the Best Practice Model more effective, these are made available on the BasicNet website (www.basicnet.com) and on the clock-in detection system reserved for Group employees. The Corporate Governance Code and the Code of Ethics are presented in the form of a video to all new hires of the Group and disseminated to all consultant team members.

The Board of Directors has nominated an Oversight Committee (OC), tasking the OC with overseeing the Best Practice Model to ensure that it is operating effectively and to identify and implement any updates required. The Oversight Committee's remit to the Risk Management & Internal Audit Committee and to the Board of Statutory Auditors is six-monthly.

11.4 AUDIT FIRM

The accounts are audited by a legally registered auditing firm. The Annual General Meeting held on April 30, 2008 assigned the audit engagement to PricewaterhouseCoopers S.p.A. The audit engagement reaches expiration date on approval of the annual accounts for the year ended December 31, 2016.

11.5 OFFICER RESPONSIBLE FOR THE PREPARATION OF THE COMPANY'S FINANCIAL STATEMENTS

At the meeting held on April 30, 2010, the Company's Board of Directors appointed, with favorable opinion expressed by the Board of Statutory Auditors, Group Financial Officer & Board Director Paolo Cafasso as the Officer responsible for the preparation of the Company's financial statements. As well as satisfying the requirements of integrity prescribed by law for Directorships, Paolo Cafasso boasts multi-year expertise in the field of administration, finance and control.

In the pursuance of his duties, Paolo Cafasso has the authority to approve the business procedures having an impact on the separate financial statements, and/or on the consolidated financial statements and on the other documents subject to attest, with the right to partake in the planning of IT and computer-system platforms having an impact on the entity's operations and financial condition; in addition thereto, he may organize an adequate structure appropriate to his assignment, taking avail of the internal resources available or, where applicable, reverting to outsourcing; as may be deemed to be necessary, he may assume financial and other commitments in respect of the company, issuing adequate remit to the Board of Directors; he may use the Internal Auditing function for internal auditing analysis and mapping purposes in the performance of specific controls.

11.6 COORDINATING SYSTEM OF RISK MANAGEMENT & INTERNAL AUDIT RESPECTIVE ROLES AND RESPONSIBILITIES

Risk Management & Internal Audit guidelines identify the respective roles and responsibilities so as not to duplicate efforts

12. DIRECTOR INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors, having received a favorable opinion from the Independent Directors, adopted the Procedures for Transactions with Related Parties, which comply with Consob Regulation 17221 issued on March 12, 2010. Approval of transactions that the Company intends to carry out with related parties, which fall under the category of transactions of greater significance or transactions of lesser significance - as identified under Section 3, Subsection 1f), of the Related Party Regulation - is entrusted to the Board of Directors, or, within the limits of the delegations assigned thereto, the Delegated Bodies, provided that these are not a related party in the transaction, and shall be subject to prior and non-binding reasoned opinion of the Independent Directors or Other Board Committees of the Board of Directors.

Should the Independent Directors or other Board Committees of the Board of Directors express a dissenting opinion on a transaction falling within the powers attributed to the Delegated Bodies, this

shall be submitted to the Board of Directors for approval. Should the transaction surpass the limit of the delegations assigned to the Delegated Bodies, this shall be submitted to the Board of Directors for approval, and shall be subject to prior and non-binding reasoned opinion of the Independent Directors or Other Board Committees of the Board of Directors. To all intents and purposes, however, reserved to the Board of Directors are resolutions in respect of transactions intended to be carried out at conditions not defined as market-equivalent or standard, as well as transactions of greater significance as defined in the Consob Regulation.

Other than all the instances explicitly envisaged by the Related Party Regulation issued by Consob, also exempted from the Procedure, as regards the aspects of approval, are transactions individually not significant (transactions having a value of Euro 150 thousand or less), and transactions put in place in the ordinary course of the Company's operating activities or any financial activity that is directly connected to those operating activities; transactions entered into with or between subsidiaries, whether jointly or otherwise, by BasicNet provided that other related parties do not hold significant interests in the BasicNet subsidiary participating in the transaction.

For the purpose of applying this exemption, the mere sharing between BasicNet and the subsidiaries it controls of one or more Directors or one or more executives with strategic responsibilities is not deemed to represent a significant interest.

Using the "*basicprocurement*" web function, a procedure has been implemented whereby an Alert Mail is transmitted whenever an order to a related party, as identified on the basis of the communications received from related parties (members of the Board of Directors or members of the Board of Statutory Auditors) is uploaded.

In 2012, no related party transactions significant in amount have been submitted to the Board of Directors.

The Procedure can be found on the BasicNet website at www.basicnet.com/Corporate_Governance_section.

13. STATUTORY AUDITOR APPOINTMENTS

As established by Article 17 of the Company's By-laws, the Board of Statutory Auditors is composed of three Standing Auditors. In addition thereto, two Alternate Auditors shall be appointed.

As identified by currently prevailing laws and regulations, one Standing Auditor and one Alternate Auditor shall be elected by the minority shareholders. The Board of Statutory Auditors shall be appointed on the basis of slates submitted by the Shareholders, where the candidates are listed in progressive order. The slate is divided into two sections: one for the standing auditor candidates and the other for the alternate auditor candidates. Having the right to submit slates shall be those Shareholders, and only those Shareholders, who, alone or together with other Shareholders, hold a total number of shares having such voting rights as to represent the percentage of the Company's capital required by law at such time.

The proposed candidacies shall be filed at the Company's registered office no later than fifteen days before the Meeting of Shareholders, along with: information about the identity of those presenting the slates; statement of attest that no connection exists between the controlling shareholder and the relative shareholders and group companies pertaining thereto; professional curriculum vitae of the individual candidates; evidence of administration and control appointments held in other companies; statement of attest that there are no grounds for ineligibility or conflicts of interest or forfeiture, and that the candidates meet the requirements of independence prescribed by applicable laws and regulations and by the By-laws; acceptance of the appointment.

In connection thereto, as envisaged by the Ministerial Decree (Ministry of Justice and Grace) taking effect on March 30, 2000, the By-laws specify the professional requisites required to serve as statutory auditor of the Company. To all intents and purposes, not eligible for election are candidates not meeting the requisites of independence, integrity and professionalism prescribed by applicable legal and regulatory requirements and by the By-laws, or candidates already holding the maximum number of statutory auditor or director appointments, as such number is defined by applicable law.

The members of the Board of Statutory Auditors are elected as follows:

- as arranged in the progressive order in which they are listed on the slate, the two standing auditors and one alternate auditor to be elected shall be chosen from the slate that obtains the greatest number of votes;
- as arranged in the progressive order in which they are listed on the slate, the remaining standing auditor and the remaining alternate auditor to be elected shall be taken from the second slate that obtains the greatest number of votes.

The Chairman of the Board of Statutory Auditors shall be deemed to be the first candidate listed on the second slate that obtains the greatest number of votes.

In the case of a tie, the candidates listed on the slate submitted by the majority shareholders, i.e. the candidates listed on the slate that was submitted by the greatest number of shareholders.

Should one, and only one, slate of candidates be submitted, all the Standing Auditors and all the Alternate Auditors shall be elected from that slate, and the candidate first listed on such slate shall be elected Chairman of the Board of Statutory Auditors.

The Extraordinary Annual General Meeting held on April 27, 2012 passed resolution approving the motion to amend Article 13 (*Board of Directors, Board Committees and Delegated Officers*) and Article 17 (*Board of Statutory Auditors*) of the BasicNet By-laws, in response to a mandatory 'gender quota' legal and regulatory requirement.

14. COMPOSITION AND REMIT OF THE BOARD OF STATUTORY AUDITORS (Section 123-bis, Subsection 2d), of Italian Finance Act)

The members of the Board of Statutory Auditors currently in office, i.e. Standing Auditor Massimo Boidi, Chairman of the Board of Statutory Auditors, and Standing Auditor Carola Alberti and Standing Auditor Maurizio Ferrero, were appointed at the Meeting of Shareholders held on April 30, 2010 on the basis of the one, and only one, slate presented by, and deposited by the shareholder BasicWorld S.r.l., the titleholder, at the date thereof, to 35.792% of the share capital, inasmuch as no other slate was presented within the legally required timescale applicable to titleholders entitled to 2.25% or more of the shares having voting rights. The documentation filed for the purpose of the statutory auditor appointments, including therein the professional curriculum vitae thereof, may be accessed through the BasicNet website at www.basicnet.com. The term of office of the Board of Statutory Auditors reaches expiration date on next April 29th with the AGM called to receive and, if deemed fit, approve the Annual Report & Accounts 2012.

In terms of its composition, the Board of Statutory Auditors is in line with the "gender quota" requirement recently introduced by Consob.

Other than satisfying the requirements of integrity, professional qualification and independence prescribed by law and required by the Company's By-laws, each member of the Board of Statutory Auditors satisfies the requirements of independence prescribed by the Corporate Governance Code. The Board of Statutory Auditors has verified that each of its members satisfy the requirements of independence prescribed by the revisited Corporate Governance Code, confirming that the statutory auditors currently in office, albeit holding office since nine years or more, satisfy substantially the requisites for being considered independent, as prescribed by the Code referred to above.

In 2012, the Board of Statutory Auditors held five meetings.

Should a Statutory Auditor, on own behalf or on the behalf of others, have an interest in any one transaction of the Issuer, he/she shall promptly inform on a detailed basis the other statutory auditors and the Chairman of the Board of Statutory Auditors about the nature, term, origin and extent of his or her interest. This, moreover, has never occurred.

As placed in evidence earlier, the Board of Statutory Auditors coordinates, in the pursuance of its activity, with the Internal Auditing function and with the Internal Audit & Risk Management Committee.

15. INVESTOR RELATIONS

The Chairman and the Managing Director also identified, among the other things, the Investor Relator, and have established and maintain an ongoing dialogue with individual shareholders and institutional investors.

Also, right from floating and listing, the Company has sought to enhance ongoing dialogue with shareholders and institutional investors using its website (www.basicnet.com). The website is used to publish operating and financial information (financial statements, quarterly and six-monthly reports, presentations to the financial community, and share price performance), and information and document updates of interest to shareholders (members of the Board of Directors; members of the Board of Statutory Auditors; Independent Auditors; By-laws and Shareholders' Meeting Regulations; Report on Corporate Governance; Code of Ethics; Group organizational framework and Group operations), as well as the reports prepared for presentation at Meetings of Shareholders. Also published on the website are press releases concerning the Brands or the Group companies and, not least, concerning Chairman Marco Daniele Boglione or CEO Franco Spalla.

16. MEETING OF SHAREHOLDERS (Section 123-*bis*, Subsection 2c), of Italian Finance Act)

Meetings of Shareholders provided regular opportunities to meet and communicate with Shareholders. During the Meetings, the Chairman and the Managing Director always encourage the active involvement of the Shareholders, making available all the information necessary or deemed to be useful so that they are in a position to consider and, if thought fit, pass resolutions.

General Meetings of Shareholders exercise the functions contemplated under Article 2364 of the Italian Civil Code. Extraordinary Meetings of Shareholders exercise the functions contemplated under Article 2365 of the Italian Civil Code.

In order to ensure that Meetings are conducted in an orderly and functional manner and, moreover, to guarantee the rights of each shareholder to take the floor and debate upon the items of business on the agenda, the Meeting of Shareholders (on June 30, 2000 and, subsequently, with additions and/or amendments, on April 30, 2011) passed resolution approving the BasicNet Shareholders' Meeting Regulations. The BasicNet Shareholders' Meeting Regulations may be accessed on the Company's website at www.basicnet.com. As a rule, the Meetings are attended by all the Directors.

The Issuer's shareholder structure as at December 31, 2011 is substantially unchanged from the year before.

17. OTHER CORPORATE GOVERNANCE PRACTICES (Section 123-*bis*, Subsection 2a) of Italian Finance Act)

Other than those disclosed hereinabove, no other corporate governance practices effectively applicable to the Issuer are mandatory under prevailing legal and regulatory provisions of law.

18. CHANGES FROM THE YEAR-END OF REFERENCE

No changes have occurred after the end of the reporting period. Any modification needed to reflect the new requirements of the Code regarding the composition of the Board and related Board Committees will be assessed on occasion of their election or re-election due to take place at the upcoming AGM on April 29, 2013, as so required by Section VIII "*Main Principles & Temporary Regime*" of the Code, approved by the Borsa Italiana Corporate Governance Committee in December 2011.

By Order of the Board of Directors

S/ Marco Daniele Boglione

Chairman

19. SUMMARY TABLES

Table 1: Structure of the Board of Directors at December 31, 2012

Name	Position	Slate	Exec.	Non Exec.	Indep.	Indep. Italian Finance Act	% Board of Directors
Marco Daniele Boglione	Chairman of the Board of Directors (with delegated operating powers)	M	X				100
Daniela Ovazza	Deputy Chairman of the Board of Directors (without delegated powers)	M		X			100
Franco Spalla	Chief Executive Officer	M	X				100
Paola Bruschi	Board Director	M	X				100
Paolo Cafasso	Board Director with delegated powers	M	X				100
Giovanni Crespi	Independent Board Director	M		X	X	X	100
Alessandro Gabetti Davicini	Non-Executive Board Director	M		X			100
Adriano Marconetto	Independent Board Director	M		X	X	X	70
Carlo Pavesio	Board Director	M		X			100

EXPLANATION:

Position: appointment held within the Board of Directors

Slate: "M" for Board Director elected from the slate voted by the majority or "m" for Board Director elected from a minority slate (Section 144-*decies* of Consob Regulation for Issuers)

Exec.: Board Director qualified as Executive Director

Non Exec.: Board Director qualified as Non-Executive Director

Indep.: Board Director qualified as Independent Director in accordance with and pursuant to the Corporate Governance Code

Indep. Italian Finance Act: The Board Director possesses the requisites of independence determined by Section 148, Subsection 3, of the Italian Finance Act (Section 144-*decies* of Consob Regulation for Issuers)

% Board of Directors: this indicates, in terms of percentage, Director's attendance at Board meetings

In office since April 30, 2010, the Board of Directors will reach term of office at the Meeting of Shareholders called to approve the Annual Report & Accounts for the year ended December 31, 2012 set for April 29, 2013.

Table 2: Board Committee Membership at December 31, 2012

Name	Position	Remuneration Committee	% R.C.	Risk Management & Internal Audit Committee	% R.M. & I.A.C.
Daniela Ovazza	Deputy Chairman of the Board of Directors (without delegated powers)	M	n/a		
Paola Bruschi	Board Director			M	100
Giovanni Crespi	Independent Board Director			P	100
Alessandro Gabetti Davicini	Non-Executive Board Director			M	100
Adriano Marconetto	Independent Board Director	M	n/a		
Carlo Pavesio	Non-Executive Board Director	M	n/a		

EXPLANATION:

R.C.: P = Chairman; M = Member of the Remuneration Committee

% R.C.: this indicates, in terms of percentage, Director's attendance at Remuneration Committee meetings

R.M. & I.A.C. P = Chairman; M = Member of the Risk Management & Internal Audit Committee

% R.M. & I.A.C.: this indicates, in terms of percentage, Director's attendance at Risk Management & Internal Audit Committee meetings

Table 3: Board of Statutory Auditors

Name	Position	Slate	Indep. CG Code	% attendance	Other positions held
Massimo Boidi	Chairman	M	Si	100	35
Carola Alberti	Standing Auditor	M	Si	90	8
Maurizio Ferrero	Standing Auditor	M	Si	90	19

EXPLANATION:

SLATE: "M" for statutory auditor elected from the slate voted by the majority or "m" for statutory auditor elected from a minority slate (Section 144-decies of Consob Regulation for Issuers)

INDEP.: Statutory Auditor may be qualified as independent in accordance with and pursuant to the Corporate Governance Code

% ATTENDANCE: this indicates, in terms of percentage, Statutory Auditor's attendance at Board of Statutory Auditors' meetings

OTHER POSITIONS HELD: this indicates the aggregate number of appointments held with companies or corporations pursuant to Book V, Title V, Chapters V, VI and VII of the Italian Civil Code, other than the position held with the Company.

In office since April 30, 2010, the Board of Statutory Auditors will reach term of office at the Meeting of Shareholders called to approve the Annual Report & Accounts for the year ended December 31, 2012 set for April 29, 2013.