

# Corporate Governance and ownership structure report

Pursuant to Art. 123-*bis* of the Consolidated Finance Act  
One-Tier Control and Administration Model

**Issuer:** Engineering Ingegneria Informatica S.p.A.  
Website: *www.eng.it*

**Year:** 2012  
Date of approval of the Report: 15.03.2013

## Glossary

**Code:** the Self-Governance Code of listed companies approved in March 2006 (lastly amended in December 2011) by the Corporate Governance Committee and issued by Borsa Italiana S.p.A..

**Civ. Code:** the Civil Code.

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

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

**Engineering:** Engineering Ingegneria Informatica S.p.A..

**The year:** the corporate financial year to which the Report refers.

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

**Stock Exchange Regulations:** the Regulations for Markets organised and managed by Borsa Italiana S.p.A..

**Consob Issuer Regulations:** the Issuers' Regulations issued by Consob resolution No. 11971 of 1999.

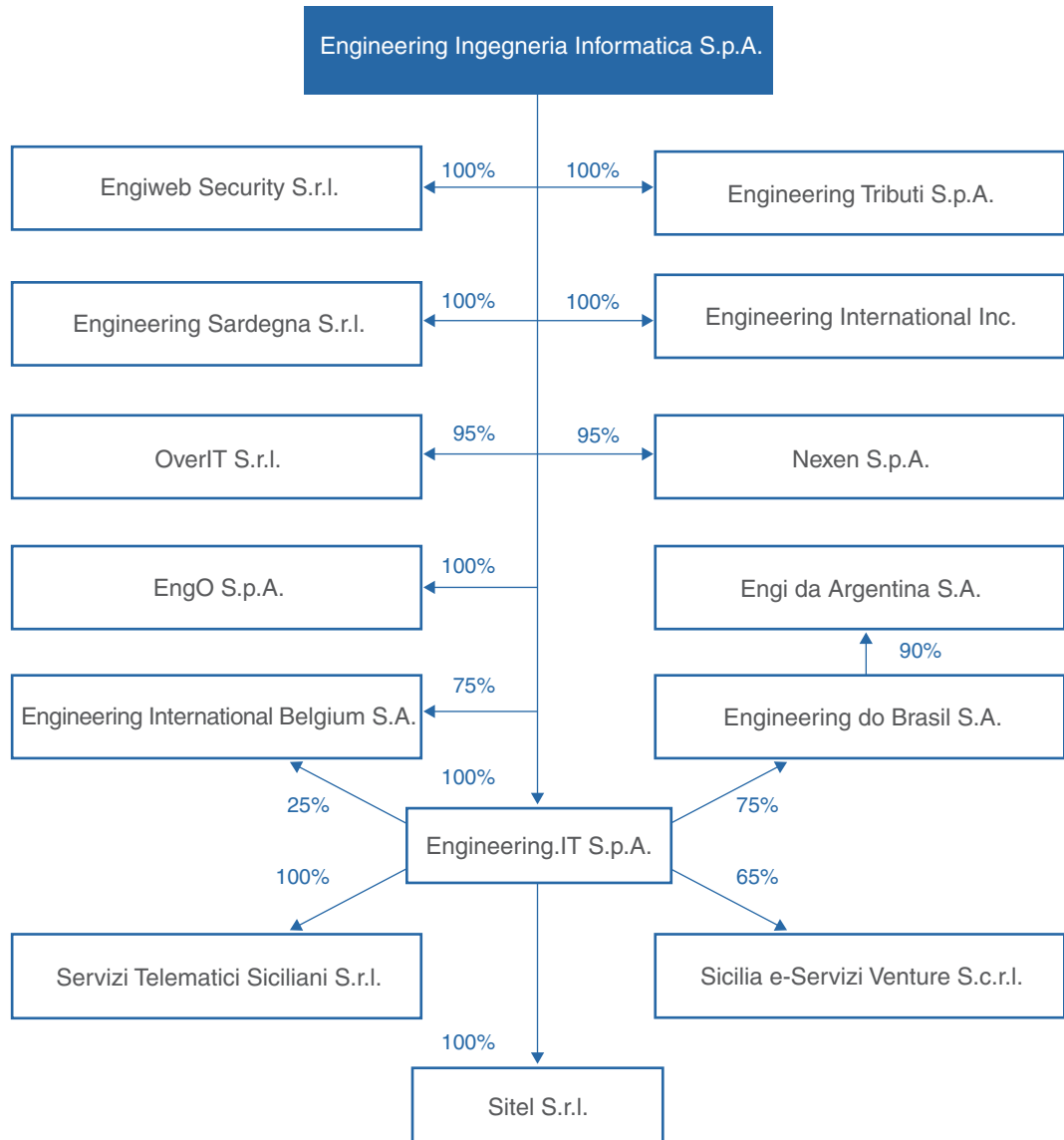
**Consob Market Regulations:** the Market Regulations issued by Consob resolution No. 16191 of 2007.

**Report:** the corporate governance report that companies need to prepare in accordance with Articles 123-*bis* of the Financial Services Act, 89-*bis* of Consob Issuers' Regulations and Article IA.2.6 of the Instructions to the Italian Stock Exchange Regulations.

**CFA:** Legislative Decree 58 of February 24, 1998 as subsequently modified (Consolidated Law on Finance).

## 1 Company profile

The Issuer, with registered office in Rome - via San Martino della Battaglia No. 56, Tax Code 00967720285 and VAT Number 05724831002, Rome Company Registration No. 00967720285 and R.E.A. RM No. 531128, heads a Group composed of 15 companies structured as follows:



The individuals conferred as general and procedural legal representatives, in compliance with the law, are: Michele Cinaglia, Member and Chairman of the Board of Directors, Rosario Amodeo, Member and Executive Vice Chairman of the Board of Directors and Paolo Pandozy, Director and Chief Executive Officer.

The Issuer is organised according to the one-tier control and administration model<sup>1</sup> which requires the following as corporate bodies: the Shareholders' Meeting, Board of Directors, appointed by the Shareholders' Meeting and the management audit committee, appointed by the Board of Directors from its members and comprising the audit body.

<sup>1</sup> The one-tier governance system is regulated by Articles 2409.16 to 2409.19 of the Civil Code and, for listed companies, Articles.

The Issuer currently holds a 7% share in the Italian IT services and technology market with a core business represented by System and Business Integration and Outsourcing. The Issuer's mission is to develop processes and business models with the support of technologies. The three levers the Issuer uses to support the change of complex organizations include providing consultation on business processes and creation of integrated architecture and services.

## 2 Information on the ownership structure (as per Article 123-*bis* section 1, CFA)

At the date of adoption of this Report it is noted that:

### a) Share capital structure

The amount of fully subscribed and paid-in share capital is Euro 31,875.00. The classes of shares that make up the share capital are reported in Table 1 attached to the present Report.

### b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

### c) Significant shareholdings

At the date of adoption of this Report the significant investments in the Issuer's share capital resulting from notices made according with Article 120 of the CFA are those indicated in Table 1 attached to the present Report.

### d) Securities which give special rights

There are no securities which give special control rights.

### e) Employee shareholdings: method of exercise of voting rights

There are no employee shareholder investment schemes (e.g. stock option plans), nor are there any mechanisms for exercising voting rights for employees who are also shareholders, when the right is not directly exercised by the shareholders.

### f) Restrictions on voting rights

There are no restrictions on voting rights.

### g) Shareholder agreements

The Issuer is not aware of agreements between shareholders in accordance with Article 122 CLF. There are no specific procedures other than those provided for by law or the Articles of Association to change the Articles of Association.

### h) Change of control clauses and By-Law provisions concerning Public Purchase Offer

At the date of adoption of the present Report, the Issuer and some of its subsidiaries have entered significant contracts which in the event of change of control of the contracting Company may lapse following the exercise of the right of withdrawal granted to the contracting counterparty. However, the termination of the contract is not solely dependent on the event of the change in control of the Company.

At the date of adoption of this Report, the Issuer did not avail of the exceptions to the passivity rule established by Article 104, paragraphs 1 and 2 of the CFA; in addition the By-Laws of the Issuer do not provide for the application of the neutralisation rules established by Article 104-*bis*, paragraphs 1 and 2 of the CFA.

### i) Powers to increase the share capital and authorisation of buy-back programme

The Board of the Issuer does not have the power to increase the share capital as per Article 2433 of the Civil Code nor to issue financial instruments.

The Shareholders' Meeting of the Issuer on April 24, 2012 authorised the purchase of treasury shares as per Article 2357 of the Civil Code establishing that (i) a maximum total number of shares may be acquired (including treasury shares in portfolio) of 2,500,000 ordinary shares within the limits of one

fifth of the share capital and not above the amount of shares, in relation to the acquisition price, in the available reserve “for purchase of treasury shares” and that (ii) the unitary purchase price is: (a) not less than the amount of the arithmetic average of official prices (according to the definition of Article 4.1.12 of the Stock Exchange Regulation) of the last 10 calendar days before the acquisition day, decreased by 20% and (b) not greater than the same amount of the arithmetic average of the aforesaid official prices of the last 10 calendar days before the acquisition day, increased by 20%.

The Shareholders' Meeting mandated Michele Cinaglia, Rosario Amodeo, Paolo Pandozy and Armando Iorio, independently, to: establish all the means and terms, executive and accessory, for the completion of the purchase and sale of the treasury shares considered.

For further information, reference should be made to the minutes of the above-mentioned Shareholders' Meeting downloadable on the website [www.eng.it](http://www.eng.it) in the Shareholders' Meetings Section.

#### I) Direction and co-ordination activities (as per Article 2497 of the Civil Code)

The issuer is not subject to management and co-ordination pursuant to Art. 2497 and subsequent of the Italian Civil Code.

\* \* \* \* \*

The information required in accordance with Article 123-*bis*, first paragraph, letter (i) is contained in the Remuneration Report published in accordance with Article 123-*ter* of the CFA to which reference should be made; (ii) the information required by Article 123-*bis*, first paragraph, letter (l) is illustrated in the section of the report on the Board of Directors (Section 4.1).

## 3 Compliance

The Issuer complies with the Self Governance Code promoted by Borsa Italiana S.p.A. under the terms described in this Report, with the necessary adaptations due to adoption of the one-tier administration and audit system.

The Issuer, nor its strategic subsidiaries, are subject to laws in force outside Italy which affect the Corporate Governance structures of the Issuer.

## 4 Board of directors

### ■ 4.1 APPOINTMENT AND REPLACEMENT

Article 15 of the Company By-Laws establishes that the Company is governed by a Board of Directors including a minimum of 7 members and a maximum of 11 members. In consideration of the fact that the Issuer belongs to the STAR segment, in the appointment and replacement of the corporate boards the provisions of Article 2.2.3 of the Stock Market Regulation are considered.

The directors are elected based on slates presented by shareholders. Shareholders which, individually or together with others, hold the amount of shares required by the applicable regulation Article 144-*quarter* and for the Issuer 2.5%, have the right to present slates.

The slates must be filed at the registered office of the Company at least 25 days before that fixed for the Shareholders' Meeting called to resolve upon their nomination and will be made available to the public at the registered office and on the internet site of the Company and under the other manners established by Consob regulation at least 21 days before the Shareholders' Meeting. Each slate will contain a maximum of 11 candidates, listed by progressive numbering.

At least one third of the candidates on each slate, with rounding to the higher number only in the case of a fractioned number with decimal higher than 5, must be independent in accordance with Article 2399, first paragraph of the Civil Code.

At least 3 candidates on each slate, two of which must be listed as the first two candidates on the slate, must be considered independent, professional and in good standing in accordance with Article 22 of the By-Laws. Each slate must specifically indicate the candidates considered independent in accordance with the above provisions.

All those with the right to vote may vote on only one slate and the vote will automatically regard all candidates indicated, without the possibility to change, add or exclude. Shareholders in any way related may vote on only one slate.

The standing auditors elected are: (i) candidates on the slate which has obtained the highest number of votes the totality of directors to be appointed less one, in progressive order in which they are listed on the slate; (ii) the first candidate on the slate that has obtained the second number of votes which is in possession of the requirements to hold office on the Board.

If the slate which obtained the second highest number of votes does not achieve a percentage of votes at least equal to half of that required for the presentation of the slates, the first candidate listed on the slate will not be elected and the entire Board of Directors will be appointed from the first slate by number of votes according to progressive number by which the candidates are listed.

In case of the presentation of only one slate, the entire Board of Directors will be elected from the only slate according to progressive numbering by which the candidates are indicated.

For that not established here, reference should be made to the By-Laws.

The Board of Directors has not adopted a succession plan for Executive Directors in consideration of the composition and concentration of the majority share ownership, capable of promptly replacing the leaving Directors. Subsequent to the end of the year, the Board of Directors mandated the Appointments Committee to explore the best international practices to support the Board in the drawing up of a "senior leadership succession" plan.

The Issuer undertakes, before the renewal of the next Board appointments, to modify the Company By-laws in relation to gender balance on the Corporate Boards in accordance with Law 120/2011, which entered into force in August 2012.

## ■ 4.2 COMPOSITION

The Board of Directors was appointed with Shareholders' Meeting resolution of April 24, 2012 and its mandate will conclude with the approval of the financial statements at December 31, 2014.

For the composition of the Board of Directors in office at December 31, 2012, reference should be made to Table 2, attached to the present report.

All members of the Board were taken from a single slate submitted, according to the terms and procedures set out by the By-laws and by law, by shareholder Michele Cinaglia and Marilena Menicucci at the time holding shares representing 34.969% of the Issuer's share capital, and was voted by the majority of the shareholders present. The slate presented by the shareholder Michele Cinaglia was approved by 71.93% of the share capital present, with three shareholders voting against for a total of 5,155 shares equal to 0.04% of the share capital and with the abstention of two shareholders for a total of six shares equal to 0.00005% of the share capital; all the candidates on the above slate were elected (Massimo Porfiri, Dario Schlesinger, Alberto De Nigro, Michele Cinaglia, Rosario Amodeo, Tommaso Amodeo, Paolo Pandozy, Costanza Amodeo, Marilena Menicucci, Armando Iorio, Giuliano Mari).

Information on the personal and professional background of the individual members of the Board and management audit committee is given below (article 144-*decies* of Consob Issuers' Regulation).

#### **Michele Cinaglia**

Founder of Engineering. Degree in Electrical Engineering from the University of Pisa. He joined Olivetti GE in 1968 and Sperry Univac in 1970, first in Florence and later Padua, as director of the branch for the Tre Venezie region. In 1975 he became managing director of Cerved, an information technology company of the Chambers of Commerce which established Cerved Engineering in 1980. He became the chief executive officer of this second company while continuing as chief executive officer of Cerved. With a management buy-out transaction in 1985, along with other colleagues he took over the majority shareholding from Cerved, thus starting Engineering Ingegneria Informatica. He is also Chairman of the Board of Directors of Engineering.IT S.p.A..

#### **Rosario Amodeo**

He holds a degree in Political Science from C. Alfieri in Florence, and later graduated at the European centre of the University of Nancy and Insead in Fontainebleau. In 2002, he received an honorary degree in IT Engineering from the University of Palermo. He started his sales career at Olivetti in 1962, in 1968 he became the marketing director of the European division of Univac; from 1975 to 1980 he was the sales director of ICL Italy, and then CEO at Sibicar. In 1983, he joined Cerved and one year later he became the General Manager. In 1988, he became a partner of Engineering Ingegneria Informatica. He is highly involved in civil and cultural matters and is widely published in this regard.

#### **Tommaso Amodeo**

He graduated in Law in 1991 in Rome. He began working at Ancitel in 1993 as a consultant for Italian Municipalities on IT services relating to Ancitel products. In 1997 he joined Engineering as a Junior corporate officer.

Since then he has worked in the Local Public Administration, Industry, Services, Telco and Central Public Administration divisions and became Director of International Business in 2007.

In 2009, he became the Chief Executive Officer of Engineering International Belgium.

In 2011, he became Vice Chairman of Engineering, with responsibility for the international development of the business on the EMEA market.

#### **Paolo Pandozy**

He graduated with a degree in Electronic Engineering from the University of Rome and began his career in the technical division of Siemens Data in 1975. He joined Cerved in 1981 as technical manager of the Rome office. He transferred to Engineering in 1984 where he remained until June 1990, holding the position of sales director for the territory of central-southern Italy. After a three year period as managing director of Metelliana, an equity investment of the Engineering group, at the beginning of 1993 he returned to the Roman office of the parent company.

Currently he is the Chief Executive Officer and Managing director of Engineering Ingegneria Informatica S.p.A., and Chief Executive Officer of the subsidiary Engineering.IT S.p.A..

#### **Marilena Menicucci**

Born in Perugia, she received an Honours degree with maximum points at the city's University, where she was a scholar for two years, following and teaching the philosophical ideas of his mentor Aldo Capitini.

On moving to Padua she combined her teaching activities with journalism, writing for the city's newspaper "Il Mattino."

She was part of the superintendancy working group and undertook an experiment on the integration of handicapped children in primary schools, "La sarta argentina", published by Valore Scuola.

She won an entrance exam for the Research, Experimentation and Modernisation Research Institute at Venice and contributed to important magazine such as Riforma Della Scuola, Educazione e Scuola, Psichiatria, Rocca, Proiezioni and Noi Donne. After the transfer to Rome she stopped his teaching activities to dedicate himself completely to writing and journalism, contributing to agencies,

magazines and the leading Italian newspapers: Corriere della sera, Messaggero, Paese Sera. She has published: five essays: Educazione e Igiene mentale (1971), Handicappato! (1981), L'altra capitale (1995), the above-stated La sarta argentina (1998) and L'Educativo creativo (2001), as well as five poetry compilations: Descrizioni d'amore (1978), La cucciolata (1997), La carne dell'anima (1999), Dentro la giungla che sono (2003) and Nel paese di San benedetto (2008), three stories: Kalè Kalè, storia di un'adozione (2002), Il rosario delle nonne-Incontro con il femminile (2003) and La maestra e lo scolaro (2006), Editori Riuniti, and two testimonies: Memorie di lavoro e di vita, (2007), La colonia-dal ventennio fascista al secondo dopoguerra (2010) Ed. Futura, Pro loco Mugnano-Perugia.

### **Armando Iorio**

He holds a Degree in Economic Science from the University of Naples and began his professional career at Avir in 1979. After a brief period as Chief Financial Officer of an Investee Company of the Engineering Group, he joined the Parent Company Engineering Ingegneria Informatica where he held a number of increasingly senior roles.

In 2006, he was appointed the Executive responsible for the preparation of the accounting documents of the Company Engineering Ingegneria Informatica S.p.A..

Today he is General Finance Director of the Engineering Group, Director of Engineering Ingegneria Informatica S.p.A., Director of Nexen S.p.A., Director of EngO S.p.A. and of Engineering.IT S.p.A..

### **Dario Schlesinger**

He earned a degree from L. Bocconi University, he is a certified accountant and auditor and operates his own practice. In this capacity he has acted as auditor, board member, liquidator, internal auditor, technical consultant and official receiver.

He has been a representative or a consultant for a multinational or otherwise large scale financial intermediary and asset management companies and is a member of the Commission for creditor protection proceedings of the Milan Accountants' Role. He also gives seminars and professional conferences on tax and corporate issues. He currently holds offices in public and/or medium and large enterprises: Engineering Ingegneria Informatica S.p.A.; Ver Capital SGR S.p.A; Quadriovio SGR SpA; B.I.P. – Business Integration Partners S.p.A..

### **Alberto De Nigro**

With a degree in Economics and Business from La Sapienza University in Rome, he is registered in Rome as a certified accountant and a certified auditor. He is a partner at Legalitax Studio Legale e Tributario with offices in Rome, Milan, Padua and Venice.

His professional activity largely involves corporate and tax issues surrounding restructuring, acquisition and merger transactions by national and international corporate groups. He continues to hold offices such as board member, auditor, internal auditor and liquidator for companies, including those with shares traded on regulated markets. He is an inspector for Co.VI.SO.C. - (the supervisory body for Italian football clubs of the Italian Football Federation) and is a member of the international tax commission of the Association of Certified Accountants in Rome.

### **Massimo Porfiri**

He graduated with a degree in Economics and Business from La Sapienza University in Rome and practiced the profession of accountant until 1986 at Studio Palandri in Rome. He became a partner in Studio Muci & Associati in 1987. He specialises in tax issues and is a consultant of the Italian Episcopal Conference. He is an internal auditor for many companies, is on the Board of Directors of various Roman religious organisations, as well as auditor of Sacred Heart Catholic University and Policlinico Gemelli.

### **Giuliano Mari**

He has a Degree in Chemical Engineering from La Sapienza University of Rome.

Principal offices held: since 2009, Director of Atlantia S.p.A. and within that Board a member of the Internal Control Committee and Corporate Governance Committee and Works Completion Committee, as well as Chairman of the Independent Directors Committee for Transactions with Related Parties; from 2009, Chairman of the Board of Directors of APE SGR; since December 2009, Director of Targetti S.p.A..

Office held in the past: from June to December 2012, Chairman of the Board of Directors of Lucchini S.p.A.; from 2006 to March 2012, Director of BCC Private Equity SGR and member of the Investments' Committee; from 2005 to 2009, Chairman of Atlantis Capital Special Situations S.p.A.; from 2003 to 2005, Director General of Cofiri S.p.A.; from 1999 to 2002, Head of the Corporate Finance Department of IMI; in the same period CEO of IMI Investimenti S.p.A.; previously, Head of the Large Corporate Credit Department of IMI. Member of the Accountants Association for over 10 years. Between 1999 and 2002, Chief Executive Officer and General Manager of IMI Investimenti; General Manager of Cofiri from 2003; from 2006 he was a director and member of the Investment Committee of BCC Private Equity SGR.

### **Costanza Amodeo**

With a degree in Italian literature from Rome's La Sapienza University, she started her journalism career in cultural affairs with RAI (Italian public television and radio). In 1988 she joined ANSA and spent a brief period at the Milan office of this press agency, where she dealt with economics, finance and the stock market. She returned to the Rome office and became part of the editorial staff covering the Parliament at the Chamber of Deputies, continuing to focus on economic issues. She left ANSA in April 2001 and joined Engineering Ingegneria Informatica as director of communications and marketing. Currently she is the Managing director of Communications & Marketing.

During the year no appointments concluded.

Subsequently on January 31, 2013, the Executive Director Costanza Amodeo, General Director of Communications & Marketing, resigned as a Director of the Board and from all other offices held in the Company for personal reasons.

With reference to article 1 section 3 of the code and taking into account the current commitments of the Issuer's directors and the nature of such commitments, the Board decided to limit the maximum number of director or audit offices to 15 in other traded companies, financial, banking or insurance companies or those of significant size which can be considered compatible with an effective performance of the role of director for the Issuer. The limits set by article 22 of the Articles of association as well as article 148-*bis* of FSA and Article 144-*terdecies* of the Consob Issuers' Regulation are exclusively applied for the members of the control management committee.

For the purposes of the information required by Article 1, section 2 of the Code, the offices of director or internal auditor held by the board members of the Issuer in other companies of the Engineering Group and/or listed companies, in financial, banking or insurance companies or of a significant size are listed below:

- i. Michele Cinaglia is the Chairman of the Board of Directors and Chief Executive Officer of Engineering.IT S.p.A.;
- ii. Paolo Pandozy is Chief Executive Officer of Engineering.IT S.p.A.;
- iii. Giuliano Mari is Chairman of the Board of Directors of Atlantis Capital Special Solutions S.p.A., director of Camuzzi International S.p.A., a member of the Investment committee at BCC Private Equity SGR and, since last year, Chairman of the Board of Directors of APE SGR and director of Atlantia S.p.A., in which he also sits on the Internal Control and Corporate Governance Committee and the Works Completion Committee;
- iv. Alberto De Nigro is Chairman of the Board of Statutory Auditors of Aicon S.p.A., Chairman of the Board of Statutory Auditors of Chiquita Italia S.p.A., Toyota Motor Leasing S.p.A., Nissan Italia S.r.l. and of Engineering.IT S.p.A.; Statutory Auditor of Telit Communications S.p.A.; Chairman of Board of Statutory Auditors of Engineering.IT S.p.A. and of 7Finance Holding di Partecipazioni S.p.A.;
- v. Massimo Porfiri is a Statutory Auditor of Engineering.IT S.p.A., of Technip Italy S.p.A. and of Avvenire Nuova Editoriale Italiana S.p.A.;
- vi. Dario Schlesinger is the Chairman of the Board of Statutory Auditors of Quadrivio SGR S.p.A., a Statutory Auditor of Ver Capital SGR S.p.A. and Engineering.IT S.p.A.;
- vii. Armando Iorio is a Director of Engineering Ingegneria Informatica S.p.A. and of Engineering.IT S.p.A..



All the members of the Board of Directors may subsequently to appointment and during their mandate participate in initiatives which will increase their knowledge in the sector of activities in which the Issuer operates; however we highlight that all the professionals on the Board of Directors, in addition to the mandatory professional qualifications, are highly specialised in the ICT sector and have developed a deep knowledge over more than 20 years in the sector.

### ■ 4.3 ROLE OF THE BOARD OF DIRECTORS

The Board meets at least quarterly. There were five meetings in the course of 2012. The average duration of the meetings was 2 hours, and no external parties attended the Board meetings with the exception of the Manager of the Corporate Affairs Department and other Senior Managers or professionals invited to attend the Board concerning specific matters on the Agenda.

It is the duty of the Chairman to provide directors with the background documentation for the matters to be discussed during the meetings and the necessary information in advance so that they may make informed decisions. The Board, on the completion of the self assessment, decided to draw up the procedures for the management of Pre-Board meeting information and also indicated a period of time within which each Director should receive the related documentation.

On the invitation of the Chairman of the Board, non-Board members may attend meetings and in particular the Heads of Departments reporting on matters on the Agenda.

The Board of Directors have scheduled 4 meetings for 2013. In consideration of the duties of the Board of Directors and business requirements, further Board meetings are expected to take place, although no dates have yet been fixed.

At the date of approval of the present Report two meetings of the Board of Directors have been held, respectively on February 20, 2013 and on March 13, 2013, which had not previously been scheduled.

The attendance percentage of the individual members at the meetings is shown in Table 2, attached to the present Report.

The Board of Directors is invested with the broadest powers for ordinary and extraordinary management of the Issuer and, namely, they are conferred all the powers for pursuing the corporate aims which are not reserved for the Shareholders' Meeting By law. In addition, the Board has the right to pass resolutions related to the reduction of share capital in the event of withdrawal of a shareholder, to change the By-laws to reflect legal provisions, and perform mergers or spin-offs in accordance with articles 2505, 2505-*bis* and 2506-*ter* of the Italian Civil Code and the indication of which board members represent the Issuer.

Article 17 of the Articles of Association provides that the following powers, in addition to those duties, which by law may not be delegated, be reserved for the Board of Directors:

- creation of general management policies;
- except for the remit of the Shareholders' Meeting, remuneration of board members invested with particular assignments approved by the Management Audit Committee and determination of any remuneration for the management audit committee (and for the entire board if the Shareholders' Meeting has so voted) between the single board members;
- the creation of committees and commissions upon determination of the competencies, powers and operational methods;
- approval of operations of significant economic, capital and financial impact, in relation to transactions with related parties.

For the latter proposal - in keeping with the recommendations contained in Article 1 section 1 f) of the Code, starting in 2011 the Board adopted "Guidelines for identification and performance of significant transactions with associates" (see part 13 of the Report for more information).

With reference to the requirements of Article 1, section 1 c) of the Code, the Board identified Engineering.IT S.p.A., operating in the Telecommunication, Industry and Outsourcing markets as a subsidiary of strategic significance.

The criteria used to identify this subsidiary of strategic importance are: (i) presence on markets other than that of the Issuer and (ii) significant production volume. The Board evaluated the adequacy of the general organizational, administrative and accounting structure, with particular reference to the internal auditing system and management of conflicts of interest of subsidiaries with strategic significance.

The Board monitors the general performance of operations, taking into account, the information received from the executive directors, as well as periodically comparing the results with the budgets.

For this purpose the Chairman and the Chief Executive Officer report to the Board and the Internal Control and Risk Management Committee at the first useful meeting, and within the deadlines established by law and the by-laws, on the most significant economic, financial and equity transactions they have performed for the Issuer.

The information contained in this paragraph is substantially in line with the requirements of Article 1 section 1 of the Code.

In line with best international practices and the Self-Governance Code to which the Issuer adheres, the Board of Directors for the first time undertook a self-assessment (Board Review) of the Board and its Committees, relating to the year 2012. It is recalled that the current Board was appointed by the Shareholders' Meeting of April 24, 2012. In order to ensure the independence of the process, in line with the responsibilities attributed to the Board and in line with the recommendations of the Self-Governance Code, the Appointments Committee undertook the self-assessment process. The Board Review was undertaken by means of written interview, through a series of questions in a self-assessment questionnaire sent to each Director, whose replies were analysed and assessed by the Appointments Committee. The Committee then reported to the Board. In accordance with the Self-Governance Code, the self-assessment related to the size, composition, functioning and efficiency of the Board and its Committees. In general, there was satisfaction and appreciation on the number, composition and expertise of the Board and the functioning of the Committees, as well as the efficiency of the governance of the Company.

The Shareholders' Meeting, in dealing with any organisational requirements, did not authorise any general or specific competitor agreements as per Article 2390 of the Civil Code.

The Board of Directors drew up the general criteria to identify transactions which have a significant strategic, economic, equity or financial impact for the Issuer in the Procedure for Related Parties, in relation to which reference should be made to the By-laws.

In accordance with the Self-Governance Code, the Board of Directors at least annually defines the nature and level of risk compatible with the strategic objectives of the Issuer.

The Board of Directors may evaluate case-by-case each issue which may determine application of Article 2390 of the Civil Code, presenting this to the Shareholders' Meeting.

#### ■ 4.4 EXECUTIVE BOARDS

##### **Chairman, Executive Vice Chairman and Chief Executive Officer**

During its 24.04.2012 meeting the Board of Directors granted Michele Cinaglia and Rosario Amodeo the broadest powers of ordinary and extraordinary management, with the exclusion of those matters which, by law or by-law provisions cannot be delegated and are reserved for the Board of Directors or the Shareholders' Meeting.

The Chief Executive Officer Paolo Pandozy is attributed the widest powers for the ordinary and extraordinary management of the Issuer through conferment of specific powers on August 3, 2012, which re-determined the remit and extent of the original powers conferred through special power of attorney, which therefore is revoked.

Finally, the Appointments Committee after having evaluated the significant commitment which involves and will involve, increasingly in the future, the management of the Engineering Group, considered it appropriate to concentrate all of the operating powers for the ordinary and extraordinary management in the Chief Executive Officer Paolo Pandozy, with the exception of significant corporate operations which will require the joint management of the Chief Executive Officer and the Chairman, Michele Cinaglia, or the Vice Executive Chairman Rosario Amodeo.

This is in order to provide a clear and unequivocal identification of the management responsibility of the Group.

The Chief Executive Officer is therefore conferred all powers of ordinary and extraordinary administration which will be exercised with single signature, with the exception of those that may not be conferred in accordance with law or Company By-laws, or which are reserved for the Board of Directors or the Shareholders' Meeting and with the exception of the following deeds and category of deeds for which the Chief Executive Officer Paolo Pandozy will undertake with joint signature with that of the Chairman or of the Executive Vice Chairman: (i) purchase, sell, exchange, transfer, confer into property investment companies, enterprises or business units; (ii) purchase, sell, exchange, transfer shares, securities or units of companies, associations, groups, consortiums, or other relative rights; (iii) undertake secured guarantees on the assets of the Company which would require the recording of a lien and/or mortgage on the Company's assets.

The Chairman is not the controlling shareholder of the Issuer.

Paolo Pandozy as Chief Executive Officer is the principal manager responsible for the management of the Issuer.

Michele Cinaglia, Rosario Amodeo and Paolo Pandozy report to the Board on the activities undertaken in relation to the powers conferred on a quarterly basis, and in 2012 reported on a timely basis on the activities undertaken and the exercise of the powers conferred to them on a quarterly basis.

As far as Issuer is aware there are no interlocking Directorships.

#### ■ 4.5 OTHER EXECUTIVE DIRECTORS

The other executive directors of the Issuer, within the limits of the specific executive powers granted, are: Costanza Amodeo, Communications & Marketing General Director of the Issuer<sup>2</sup> and Tommaso Amodeo, Managing Director of the Issuer and Chief Executive Officer of Engineering Belgium S.A., a company incorporated in Belgium.

<sup>2</sup> Costanza Amodeo resigned with effect from January 31, 2013.

## ■ 4.6 INDEPENDENT DIRECTORS

The current Board of Directors includes four directors that meet independence requirements:

- Giuliano Mari (Lead Independent Director, Chairman of the remuneration Committee and Chairman of the Appointments Committee).
- Massimo Porfiri (Chairman of the control and risk management Committee, member of the remuneration Committee, member of the appointments Committee and Chairman of the Committee for transactions with related parties).
- Dario Schlesinger (member of the control and risk management Committee, member of the appointments Committee and member of the Committee for transactions with related parties).
- Alberto De Nigro (member of the control and risk management Committee, member of the remuneration Committee and member of the Committee for transactions with related parties).

The Independent Directors make up the remuneration Committee and the internal control and risk management Committee, the Committee for the transactions with related parties, as well as the newly incorporated appointments Committee.

Non-executive and independent directors, with the exception of the circumstances described below, are Independent Directors, according to paragraph 3.1 of the Code, which provides that a Director is not by law independent in the following circumstances (the list is not exhaustive):

- a) if, directly or indirectly, including via subsidiaries, an intermediary company or person, he/she controls the issuer or is capable of exercising a notable influence on it, or participates in a shareholders' agreement through which one or more persons can exercise control or a notable influence over the issuer;
- b) if he/she is, or has been in the previous three financial years, a representative of the issuer, of a subsidiary having strategic significance or of a company under shared control with the issuer, or of a company or an entity that, including with others through a shareholders' agreement, controls the issuer or is capable of exercising a notable influence over it;
- c) If, directly or indirectly (for example through subsidiary companies or where they are a relevant member, or as partner of a professional advisory firm or a consultancy company), has, or has had in the previous year, a significant commercial, financial or professional relationship:
  - with the Issuer, a subsidiary, or with some relevant members;
  - with persons who, including via a shareholders' agreement, control the Issuer or – in the case of a company or entity – with the relative representative;
 or he/she is, or was in the previous three financial years, an employee of one of the above persons;
- d) if they receive or have received in the previous three years, from the issuer or a subsidiary or parent company a significant additional remuneration other than the "fixed" fee of non-executive director of the issuer, including incentive participation plans relating to the performance of the company, including share-based payments;
- e) if they were a director of the issuer for more than nine years of the past twelve years;
- f) if they are an executive director in another company in which an executive director of the issuer is a director;
- g) if they are a shareholder or director of a company or of an entity belonging to the network of the auditors of the issuer;
- h) if they have a close family member in a situation described in the previous points.

The Board of Directors periodically verifies the holding and continuity of the independence of the independent members. In particular, the Board of Directors, on the renewal of office, verified on April 24, 2012, the independence of these Directors and reported to the market their assessment in accordance with the press release pursuant to Article 144-*novies* of the Regulation.

The independence of the Directors is assessed at least once a year.

The Board uses all the parameters set out by the Code to identify executive, non-executive and independent directors.

The current Board of Directors consists of 4 (four) directors meeting the independence requirements specified under the law and considered independent under the criteria indicated in the Code: 3.C.1. and 3.C.2.: Dario Schlesinger, Alberto De Nigro, Massimo Porfiri and Giuliano Mari.

Under the procedure followed by the Board in verifying independence, the existence of the requirement is declared by the director when the list is submitted and again when the appointment is accepted, and is evaluated by the Board of Directors in the first meeting following the appointment. The Independent Director also undertakes to immediately report to the Board of Directors failure to meet the requirement, so that necessary measures may be taken. Following appointment the Board of Directors again asks for a declaration of independence from directors once a year and verifies the independence requirements are met, as recommended in Article 3.4 of the Code.

The management audit Committee confirms the correct application of the criteria and procedures adopted by the Board to evaluate the independence of its members.

During the financial year the Independent Directors met once without the other directors to discuss the future prospects of the Issuer including extraordinary acquisition transactions.

#### ■ 4.7 LEAD INDEPENDENT DIRECTOR

The Code requires that, where the Chairman of the Board of Directors is the principal head of corporate management, as is the case where the Chairman controls the Company, the Board of Directors designates an Independent Director as Lead Independent Director, who acts as a point of reference and coordination of petitions submitted by the non-executive, and in particular, independent board members. In this regard, given that these circumstances exist, Giuliano Mari was appointed Lead Independent Director, in accordance with Article 2 section 3 of the Code.

## 5 Treatment of corporate information

The Company has long had a procedure for internal management and external communication of documents and information relating to the Issuer, in particular price sensitive information, which is an integral part of Model 231. The procedure was modified and updated on October 6, 2011.

This procedure covers, the roles, responsibilities and operative methods of managing price sensitive information and methods of informing the public in compliance with the law.

The procedure in place for members of company bodies, managers, employees of Engineering and its subsidiaries, who have access to price sensitive information.

The Issuer has adopted a register of all persons with access to price sensitive information (pursuant to Article 152-*bis* of Consob Issuers' Regulation) and follows the procedure set down in the CLF (Article 114, section 7) and by Consob in relation to notification of transactions of Engineering shares executed by relevant persons (insider trading).

## 6 Internal committees

A remuneration Committee, the Internal control and risk management and the Committee for the management and approval of procedures with related parties have been established within the Board.

## 7 Appointments committee

The Appointments Committee was set up on April 24, 2012. The Committee is composed of three Non-Executive and Independent Directors as follows: Chairman Giuliano Mari, members Massimo Porfiri and Dario Schlesinger.

The work of the Committee is co-ordinated by the Chairman Giuliano Mari.

During the year the Committee met 3 (three) times, with an average duration of 2 hours and the members of the Committee attended all meetings.

For the current year, the Committee has scheduled 4 (four) meetings, of which 1 (one) meeting already held before the approval of the present Report, which included the participation of non-Committee members.

For further information relating to the functioning and the Committee Meetings, reference should be made to Table 2 attached to the present Report.

## 8 Remuneration committee

The Board set up the Remuneration Committee with Board Resolution of April 24, 2012; the Committee is composed of three Non-Executive and Independent Directors as follows: Giuliano Mari, Massimo Porfiri and Alberto De Nigro, all with adequate accounting and financial knowledge. During the year, the Remuneration Committee met 6 (six) times. The minutes of committee meetings were regularly taken and the work was co-ordinated by Giuliano Mari. The attendance of the individual members at the meetings, the average duration of meetings and the number of meetings scheduled are shown in Table 2 attached to the present Report.

To perform its functions, the remuneration Committee had access to the information and company functions needed to carry out its work as well as the assistance of external consultants, within the conditions established by the Board.

The remuneration Committee has the duties to:

- periodically evaluate the adequacy, the overall compliance and the application of the general remuneration policy of executive directors, other directors with particular offices and senior managers with strategic responsibilities, utilising for this latter issue the information provided by the Chief Executive Officers and draws up for the Board of Directors related proposals;
- presents proposals to the Board of Directors on the remuneration of executive directors and other directors holding particular offices as well as establishing the performance objectives related to the variable component of this remuneration; monitors the application of the decisions adopted by the Board verifying, in particular, the achievement of the performance objectives.

The Committee does not utilise external consultants; in any case the Committee has the faculty to use the services of a consultant in order to obtain information on market practices concerning remuneration policies, preliminarily verifying that they do not relate to situations in which independence of judgment is compromised.

No financial resources have been earmarked for the remuneration Committee seeing as the latter avails itself, to carry out its role, of the Issuer's corporate resources and structures.

The CEOs do not attend remuneration Committee meetings where proposals for the board are created regarding their remuneration.

No parties, other than the directors who are members of the Committee, attended the remuneration Committee meetings.

For that not established in the current document, reference is made to the Remuneration Report published as per Article 123 of the CFA.

## 9 Remuneration of directors

For the information relating to the present section reference is made to the Remuneration Report published in accordance with Article 123-ter of the CFA.

In addition to that reported in the Remuneration Report, to which reference should be made, it should be noted that the incentive mechanisms for the Internal Audit Manager and of the Manager in charge of the preparation of the accounting documents are in line with the responsibilities assigned.

\* \* \*

Indemnity of the Directors in case of dismissal and termination of employment following a public purchase offer (as per Article 123-bis, para. 1, letter i) of the CFA).

No agreements have been signed between the Parent Company and the directors which provide indemnity in the case of resignation or dismissal/revocation of office without just cause or termination of employment following a public purchase offer.

## 10 Control and risks committee

The Internal audit Committee is composed of three independent members with experience in accounting and financial matters; they also carry out the functions of the Management audit Committee established by the Code. This overlapping of roles – suggested for companies with a one-tier system by Article 12 section 2 b) of the Code – is due initially to the configuration and structure of the one-tier system audit body and the Board's desire to avoid the dual presence of two similar bodies within the Board, which could undermine efficiency and organisation following the introduction of Article 19 of Legislative Decree 39/2011, attributing however further supervisory duties in relation to IT and auditing processes.

Therefore each time the management audit committee meets, it also performs the functions and checks of the Internal audit Committee. For this reason separate minutes are not taken for the meetings of the Internal audit Committee.

At the Internal audit Committee meetings, no parties attended which were not members, with the exception of the Chief Executive Officer, the Manager in charge of the preparation of the corporate accounting documents of the Issuer and the Internal control manager on the invitation of the Committee and in relation to individual matters on the agenda. The Committee on a half yearly basis verifies and informs the Board of Directors on the outcome of the internal control system verification.

The Committee assists the Board of Directors in carrying out the duties appointed by the Board in relation to internal control and has the ability to access the information and the corporate offices necessary for the carrying out of its duties.

With reference to these functions, it is important to note that the Committee performed an evaluation on the correct use of the accounting standards and their uniformity with the purposes of preparing the consolidated financial statements for 2012 with Deloitte & Touche S.p.A. and the Manager in charge of the preparation of the corporate accounting documents.

The Committee expresses, on the request of the executive Director appointed to oversee the functioning of the internal control system, opinions on the specific aspects relating to the identification of the corporate risk principles as well as the design, implementation and management of the internal control system, examines the work plan prepared by the internal control managers as well as the periodic reports prepared by them, reporting to the Board at least half-yearly on the approval of the financial statements and the half-yearly financial statements, on the activities carried out as well as the adequacy of the internal control system.

The Committee for the management and approval of procedures with related parties, appointed by the Board of Directors in the Meeting of April 24, 2012, comprises three non-executive and independent directors: Massimo Porfiri (Chairman), Alberto De Nigro and Dario Schlesinger. At the Board of Directors meeting of November 12, 2010, the Board, following approval of the Committee, approved the procedure for transactions with related parties.

The Committee carries out the duties established by Consob regulation No. 17221 concerning transactions with related parties.

## 11 Internal control and risks management system

The Issuer's internal control and risk management system is intended as all of the processes aimed at protecting the effectiveness and efficiency in running company operations, the reliability of financial information, the compliance with applicable laws and safeguarding of company assets.

The Board is responsible for internal control and, by periodically auditing the actual operation of the system, guarantees that the main company risks are identified and adequately managed.

In this task the Board is assisted by the management audit committee which, as described above, also performs the functions of the Internal audit Committee required by the Code.

The management audit committee in its Report to the Board, judged the Issuer's internal audit situation to be adequate.

The risks were identified for the year 2012 and it is expected, reasonably, that these risks will be the same for the year 2013.

Reference should be made to the Director's Report Section 16, "Principal risks and uncertainties" for further information on the risks identified; reference should be made to Attachment 1 for an overview of the principle characteristics of the internal control and risk management system adopted and implemented by the Issuer .

### ■ 11.1 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM DIRECTOR APPOINTED

To comply with the provisions of article 7.P.3 of the Code, the Board has appointed Paolo Pandozy as executive director in charge of supervising the operation of the internal control and risk management system.

The executive Director appointed to oversee the functioning of the internal control system:

- identified the principal Company risks, periodically presenting them to the Board;
- has adapted the system to the dynamics of the operating conditions and legal and regulatory framework:
- proposed to the Board the appointment, removal and remuneration of the internal audit manager;
- received the reports prepared by the Internal Audit Department and all the audit reports undertaken during the year;
- received the periodic reports prepared up by the Supervisory Board (pursuant to Legislative Decree 231/2001).
- exchanged information with the control and risk management Committee and received their reports.



## ■ 11.2 INTERNAL AUDIT MANAGER

The Board, based on a suggestion from the executive Director in charge of supervising the operation of the internal auditing system, and after hearing the opinion of the control management Committee acting as internal audit Committee: (i) has appointed Amilcare Cazzato, previous head of the internal audit body, as person in charge of internal auditing and (ii) has defined the remuneration of the person in charge of internal auditing in line with corporate policies.

The Internal Audit Manager:

- had direct access to all the necessary information to carry out his duties;
- has reported on his actions to the executive director in charge of the operation of the internal auditing system and the management audit committee acting as internal audit committee.

The internal audit duties, overall or in relation to operational segments, was not awarded to external parties.

For that not stated in the present document in relation to the principal characteristics of the risks and internal control system in relation to the financial reporting process reference should be made to Attachment 1.

## ■ 11.3 ORGANISATION MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

The Issuer and its principal subsidiaries adopted an “Organisation and Management model” pursuant to Legislative Decree 231/2001.

As noted, Legislative Decree 231/01 (“Governance on administrative responsibility of legal persons, of companies and of associations even without legal identify” of June 8, 2001) sanctions the principle for which Legal Entities will respond, in the manner and terms indicated, to offenses committed by personnel of enterprises, in the interest of or to the advantage of the enterprise, concerning offenses specifically indicated in the Decree.

Legislative Decree 231/2001 therefore incorporated the principle in which also legal persons respond directly to offenses committed, in their interest or to their advantage, by persons operating professionally within their organisation.

The scope of the offenses within the Decree has been progressively enlarged over the years, requiring a periodic revision of the model and of the protocols (controls) implemented by the enterprise in order to ensure compliance of the various activities, and aimed at deterring the commission of such offenses.

The Company has consistently updated the organisation model approved by the Supervisory Board (SB), whose existence is sanctioned by the Decree.

The approach undertaken for the definition of the organisation and management model is as follows:

- Identification of the risks to which the Company is exposed. In particular this has required a technical/legal analysis of the offenses outlined by the Decree.
- Recognition of what could be the manner and circumstances in which one or more persons, operating within the organisation of the Company, could undertake illegal conduct.
- Recognition of the processes and sub-processes of the Company in which it is easier to undertake illegal conduct and of the parties most exposed or susceptible to the risk of committing offenses.
- Evaluation of the effective risks (of a pre-supposed offense) to which the Company is exposed, and of the processes, and parties susceptible to these risks.
- Analysis of the level of the “risk protection” offered by the Company’s existing norms and procedures.
- In the case in which this protection is absent (or was considered insufficient), these were updated and a new version of the procedures issued, as considered appropriate to protect the specific risk.

The "Organisation and auditing model, as per Legislative Decree 231/2011" is available on the Issuer's website [www.eng.it](http://www.eng.it) in the Investor Relations/Download Center/Corporate Governance section.

#### ■ 11.4 INDEPENDENT AUDITORS

The Issuer's auditing activity is assigned to Deloitte & Touche S.p.A..

The Shareholders' Meeting is responsible for the appointment of an auditing company, which carries out periodic checks on regular bookkeeping, from the list of companies registered with the Consob; the Shareholders' Meeting also determines the amount of remuneration.

The current audit company Deloitte & Touche S.p.A. was appointed by the Shareholders' Meeting of April 24, 2012 and ends with the approval of the financial statements at December 31, 2020.

#### ■ 11.5 MANAGER IN CHARGE OF THE PREPARATION OF THE COMPANY'S FINANCIAL STATEMENTS

Armando Iorio, Chief Financial Officer of the Engineering Group and of the Issuer, covers the role of manager in charge of preparing accounting and company documents, appointed by the Board of Directors on April 24, 2012 and until the expiration of the current board of directors at December 31, 2014.

In accordance with Article 17 of the Articles of Association, the director in charge of preparing the accounting documents is appointed by the Board, which verifies that such director possesses the following professional requirements: (i) university degree or secondary school diploma and (ii) at least three years of experience in management in the administrative or finance area at a listed company or at a joint stock company with shareholders' equity not less than Euro 5 million and with a significant turnover.

At the time of appointment the Board granted the director in charge of preparing accounting documents with the powers and means listed below: (i) attendance at Board meetings and the possibility of speaking at any time with the administrative and auditing bodies, including with reference to other Group companies; (ii) power to propose to the boards of subsidiaries that responsibility for preparing accounting documents be granted to its managers or middle management, indicating their functions and powers; (iii) approval of company procedures which have an impact on the financial statements, including consolidated, and documents subject to certification; (iv) participation in the design of information technology systems which may have an impact on the economic, equity and financial situation, including consolidated, of the Issuer; (v) exercise of audits on the aforesaid systems and procedures and right to propose structural changes to the elements of the internal auditing system which are considered inadequate; (vi) use of the internal auditing function and use of the information technology systems for control purposes; (vii) organisation of an adequate structure for his own area of activity, using internally available resources and, if necessary obtaining them through outsourcing.

#### ■ 11.6 COORDINATION OF THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control and risk management system principally involves:

- The Board of Directors which undertakes, in addition to a directional role, an evaluation on the adequacy of the system;
- The Internal control and risk management system Director appointed;
- The Committee for internal control and risk management, composed of 3 Independent Directors, with the responsibility to support, with adequate preparatory activity, the evaluations and decisions of the Board of Directors relating to the internal control and risk management system;
- The Internal Audit Manager, appointed to verify if the internal control and risk management system is functional and adequate;
- The general Directors of the Production Divisions and General Management of the Company, as involved in the control and risk management activities of the Company.

The general Directors of the Divisions report directly to the Director responsible for the Internal control system; the exchange of information is undertaken in an informal but continual manner.

The Internal Audit department undertakes continual control activities during the year, carrying out numerous verifications on the production orders and on the business systems. The verifications are carried out in order to ensure compliance with protocols contained in the Company's procedures by the Parent Company and the subsidiaries, in order to guarantee:

- the reliability and integrity of accounting, financial and operating information
- the efficiency of the operations
- the safeguarding of the company's assets
- the conformity with law, regulations and contracts
- the timely identification of any risks.

The coordination of the activities and information principally takes place through Internal Auditing which:

- reports in the Audit minutes the principal findings and issues arising; the minutes are sent to all the hierarchical structures relating to the departments audited, and are made available to the control and risk management Committee and the Supervisory Board (as per Legislative Decree 231/01);
- participates at the meetings of the Supervisory Board and the control and risk management Committee, and at these meeting provides information on the internal control and risk management system;
- prepares an annual report, containing the information on the auditing activities undertaken and an evaluation on the overall internal control and risk management, taken from the data obtained during the year;
- periodically meets with the Executive responsible for the preparation of accounting information in order to evaluate any specific aspects relating to the internal control and risk management system.

## 12 Directors interests and transactions with related parties

Transactions with significant and related parties, including those executed through subsidiaries, respect the criteria of substantial and procedural fairness and are in accordance with Consob Regulation No. 17221 concerning transactions with related parties and procedures adopted by the Issuer at the Board of Directors' Meeting of November 12, 2010, available on the website [www.eng.it](http://www.eng.it) Investor Relations/Corporate Governance section.

The procedure adopted by the Issuer defines:

- a) the criteria to identify transactions with related parties;
- b) the general rules and principles of behaviour relating to such transactions;
- c) the general criteria for the identification of insignificant/significant transactions under the applicable regulations;
- d) the governance of the manner of execution, of approval and communication of insignificant/significant transactions with related parties.
- e) market notification and confidentiality requirements.

Under the procedure, the Board of Directors is duly informed about the nature, operational procedures, times and conditions (including economic conditions) of the above transactions. The procedure allows the Board to evaluate, also having heard the opinion of a specially constituted Committee, the interests and motivations behind a given transaction and any risks for the Issuer or its Subsidiaries relating to the above contracts with significant and related parties.

For the definition of transactions with related parties the Board refers to the principles set out in the procedure. In 2012 the Issuer did not complete any transactions with related parties which were required to be reported under the terms of article 71-*bis*, of the Consob Issuers' Regulation.

The Board complies with the regulations established by law (including Articles 2381, 2391 of the Civil Code and 150 FSA) and company by-laws (Article 17) concerning potential directors' conflicts of interests in decision making, including in relation to behaviour and notification obligations, generally requiring that directors declare any potential conflict at the first suitable sitting of the board.

If a Director of the Issuer holds an interest and/or on behalf of third parties by being on the board of a subsidiary, the information related to transactions which are part of normal operations of the Group are given in a general and concise manner.

### 13 Appointment of the management audit and risk control Committee

The members of the management audit Committee are directors of the Issuer and therefore they are elected with the slate system described in part 2 letter h) of the present Report.

After appointment of the Board, it elects the control management Committee from its members having the necessary requirements. The Chairman of the Committee is selected by the Shareholders' Meeting from those taken from the minority list.

Article 22 of the Articles of Association governs the appointment of the control management Committee (according to the above-mentioned rules) as well as the independence, integrity and professionalism, which its members must possess.

The members of the management audit and risk control committee are Massimo Porfiri (Chairman), Dario Schlesinger and Alberto De Nigro. They are three independent board members, who also possess the other requirements requested by law and the by-laws to be part of this audit body.

The Committee was appointed on April 24, 2012 and remains in office until approval of the financial statements at December 31, 2014.

The management audit and risk control Committee substantially performs all of the functions of the internal auditors of a listed Company. It is required to monitor the adequacy of the Issuer's organisational structure, internal audit system and administrative and auditing system as well as its suitability and to correctly represent operating events; it also performs additional duties assigned to it by the Board of Directors in particular with reference to relations with persons in charge of auditing accounts. Lastly, the management audit and risk control Committee, supervises the procedures for enacting corporate governance rules required by the code of conduct which the company declares to follow and on the adequacy of directives given by the listed company to subsidiaries related to communication obligations to the public for confidential information.

The legal and Code requirements applicable to auditors shall also apply, insofar as compatible, to the management audit and risk control Committee members.

There were ten meetings of the management audit and risk control Committee members during the financial year and their minutes were regularly taken.

The minutes include the activities undertaken during the period. As reported in part 11, the control management Committee also performs the function of the internal audit Committee, without the need for separate and specific meetings.

Reference should be made to Table 3 attached to the present Report for the attendance of the members at the meetings.

See part 4 of this Report for the personal and professional profiles of the management audit and risk control Committee members.

There were no changes in the composition of the management audit and risk control Committee as of the closing date of the year.

## 14 Relations with shareholders

The Board of Directors acts to provide shareholders with relevant documents and information in a timely fashion.

For this purpose, the Company's website has a section dedicated to Corporate Governance, through which the public can be constantly updated concerning important company news and events for shareholders. In particular in the Investor Relations section the documents which by law must be made available to the public are downloadable also in accordance with Article 125.4 of the CFA. Both sections are easily accessed from the homepage [www.eng.it](http://www.eng.it).

Engineering also uses its representatives to ensure continuous dialogue with the market, in compliance with the laws and regulations on the circulation of privileged information and the procedures for circulating confidential information. Corporate procedures and behaviour are designed to avoid information imbalances and to ensure that each investor or potential investor has the right to receive the same information to make balanced investment decisions.

For this purpose, when publishing annual, half-yearly and quarterly data, the Company organizes conference calls with institutional investors and financial analysts, while shareholders and potential shareholders are informed of any action or decision that may have a significant impact on their investments. The Company also ensures that its website ([www.eng.it](http://www.eng.it) - InvestorRelations) contains the press releases and payment notices of the company relating to the exercise of rights on shares issued, as well as the documents relating to Shareholders' Meetings or made available to the public. The above actions are designed to inform shareholders and investors about issues that effect them. The Company also encourages qualified experts and journalists to participate in Shareholders' Meetings.

The head of Engineering's Investor Relations division Niccolò Bossi is responsible for managing relations with institutional investors.

## 15 Shareholders' meetings

In accordance with the By-Laws, Shareholders' Meetings are called with a notice published in accordance with applicable regulations in the daily newspaper *Il Sole 24 Ore* or in the Official Gazette. The Company also makes the documents relating to the agenda available to the public by: filing the documents at the registered office, sending them to Borsa Italiana via NIS, sending them by post or via the *teleraccolta* system to Consob and publication on the website.

The first and second call of ordinary Shareholders' Meetings is convened and makes resolutions by favourable vote of shareholders representing more than half of the share capital.

Holders of voting shares may attend the Shareholders' Meeting provided they have proven their rights by producing a declaration, issued by the intermediary authorised to maintain the book of accounts, that their shares were deposited in dematerialised form with the centralised clearing system at least two business days prior to the shareholders' meeting and filing the declaration with the Company accordingly and in compliance with the law. Those with the right to vote may send to the Issuer before each shareholders' meeting, questions via e-mail to the dedicated e-mail address (*assemblee@eng.it*); each person with the right to vote has the right to take the floor at the Shareholders' Meeting and to request inclusion, if pertinent, in the Shareholders' Meeting minutes. The Issuer also decided to identify on occasion a representative which the holders of the right to vote may confer proxy (the format is available on the site *www.eng.it*).

The operations of the Shareholders' Meeting is regulated by Article 8 of the By-Laws and by the Shareholders' Meeting Regulation adopted by the Issuer, available on the site of the Issuer *www.eng.it* in the Investor Relations/Corporate Governance section.

The Board referred to the activities carried out and programmed in the Shareholders' Meetings and endeavoured to ensure shareholders have adequate information regarding the necessary elements so that they could take, with knowledge of the cause, the decisions within the authority of a Shareholders' Meeting.

In order to reduce limits and constraints that may hinder attendance at shareholders' meetings and the exercise of voting rights by shareholders, Article 8 of the articles of association allows for directors to provide in the notice of convocation, that the shareholders' meeting may take place via telecommunication media, with an indication of the locations connected by the Issuers, in which holders of voting rights can take part.

The following Board members attended the Shareholders' Meeting of April 24, 2012: Michele Cinaglia, Rosario Amodeo, Paolo Pandozy, Tommaso Amodeo, Costanza Amodeo and Giuliano Mari.

For the management audit and risk control Committee the following members were present: Dario Schlesinger, Massimo Porfiri and Alberto De Nigro.

The remuneration Committee did not report to the shareholders on the work of the Committee. In the course of the financial year there were no particularly significant changes in the market capitalisation of the Issuer's shares or in the composition of its corporate structure.

## 16 Additional Corporate Governance practices

There are no additional practices relating to Corporate Governance.

## 17 Changes since year-end

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No significant changes have been made to the Corporate Governance structure since the year-end.

\* \* \* \* \*

### TABLES

Table 1: Shareholders

Table 2: Structure of the Board of Directors and Committees

Table 3: Structure of the Management audit and risk control Committee

### ATTACHMENTS

Attachment 1: “Main characteristics of existing risk management and internal audit systems used in relation to the financial reporting process” in accordance with Article 123-*bis*, section 2.b) of the Consolidated Law on Finance.

\* \* \* \* \*

Rome, March 15, 2013

**For the Board of Directors  
The Chairman  
Michele Cinaglia**

Table 1a: Information on shareholders

Type of shares	No. of shares	% of share capital	Listed (with market indicated)/ not listed	Rights and obligations
Ordinary shares	12,500,000	100	MTA	Every share has the right to one vote. Shareholders' rights and obligations are those cited by Articles 2346 and subsequent of the CFA and the By-laws

Shareholder	Direct shareholder	% of ordinary share capital	% of voting share capital
Michele Cinaglia	Michele Cinaglia	22.999	22.999
Tommaso Amodeo	Tommaso Amodeo	16.099	14.000
Costanza Amodeo	Costanza Amodeo	15.943	13.844 <sup>1</sup>
Marilena Menicucci	Marilena Menicucci	11.970	11.970
Rosario Amodeo	Rosario Amodeo	4.470, of which 0.272 owned	4.470 <sup>2</sup> of which 0.272 owned
BestinverGestion, SGIIIC, S.A. Gestione del Risparmio	BestinverGestion, SGIIIC, S.A.	9.866	9.866
Ing. Investment Management Belgium S.A.	Ing. Investment Management Belgium S.A.	2.055	2.055
Treasury shares	Treasury shares	2.480	2.480

<sup>1</sup> Amodeo Rosario has the right of usufruct and therefore voting rights on 2.099% of the share capital held by Amodeo Costanza at bare interest.

<sup>2</sup> Amodeo Rosario has the right of usufruct on 2.099% of the share capital held by Amodeo Tommaso at bare interest.



Table 1b: Period 01.01.2012 – 31.12.2012

<b>Name</b>	<b>Company</b>	<b>Number of shares held at the end of the previous year (31.12.2011)</b>	<b>Number of shares acquired</b>	<b>Number of shares sold</b>	<b>Number of shares held at the end of the year (31.12.2012)</b>
<b>Directors in office</b>					
Michele Cinaglia	Engineering Ingegneria Informatica S.p.A.	2,874,934			2,874,934
Marilena Menicucci	Engineering Ingegneria Informatica S.p.A.	1,496,207			1,496,207
Rosario Amodeo	Engineering Ingegneria Informatica S.p.A.				558,743
Usufruct of 262,377 shares held by Tommaso Amodeo					Of which 33,989 owned, equal to 0.272%
Usufruct of 262,377 shares held by Costanza Amodeo		558,743			
Costanza Amodeo of which without voting rights 262,377	Engineering Ingegneria Informatica S.p.A.	1,992,856	9.866		1,992,856
Tommaso Amodeo of which without voting rights 262,377	Engineering Ingegneria Informatica S.p.A.	2,012,319	2.055		2,012,319
Paolo Pandozy	Engineering Ingegneria Informatica S.p.A.	52,378			52,378
Dario Schlesinger	Engineering Ingegneria Informatica S.p.A.	75			75

Table 2: Structure of the Board of Directors and Committees

**Board of Directors**

Office	Member	In office from	In office until	State (M/m)	Exec.	Non exec.	Indep. as per code
Chairman	Michele Cinaglia	24.4.12	31.12.14	M	Yes		
Vice Exec. Chairman	Rosario Amodeo	24.4.12	31.12.14	M	Yes		
Vice Chairman	Tommaso Amodeo	24.4.12	31.12.14	M	Yes		
CEO	Paolo Pandozy	24.4.12	31.12.14	M	Yes		
Director	Marilena Menicucci	24.4.12	31.12.14	M	Yes		
Director	Costanza Amodeo	24.4.12	31.12.14	M	Yes		
Director	Armando Iorio	24.4.12	31.12.14	M	Yes		
Director	Dario Schlesinger	24.4.12	31.12.14	M		Yes	Yes
Director	Alberto De Nigro	24.4.12	31.12.14	M		Yes	Yes
Director	Massimo Porfiri	24.4.12	31.12.14	M		Yes	Yes
Director	Giuliano Mari	24.4.12	31.12.14	M		Yes	Yes

## DIRECTORS LEAVING OFFICE DURING THE YEAR

Name

Quorum required for the presentation of slates of latest appointment: 2.50%

Number of meetings held in the year:

Table 3: Control management Committee

Office	Name	In office from	In office until	Slate (M/m)*	Indep. as per Code	** (%)	Number of other offices held ***
Chairman	Massimo Porfiri	24.04.2012	31.12.2014	M	X	100	38
Member	Dario Schlesinger	24.04.2012	31.12.2014	M	X	100	9
Member	Alberto De Nigro	24.04.2012	31.12.2014	M	X	100	20
OFFICES TERMINATED IN THE YEAR							
	Name	-	-	-	-	-	-
Quorum required for the presentation of slates of latest appointment: Consob Resolution 18452 for Engineering 2.5%							
Number of meetings held in the year: 6							

## NOTE

\* M/m indicates whether the directors was elected by the majority (M) or minority (m) slate.

\*\* This column indicates the attendance percentage of the statutory auditors at the Meeting of the Board (No. of meetings carried out during the effective period of office of the statutory auditor).

\*\*\* This column indicates the number of offices of director or statutory auditor in accordance with relevant article 148-bis of the CFA. List of offices held is published on Consob website pursuant to article 144 of the Consob Issuers' Regulations.

	Indep. as per CFA	(%)	Number of other offices	Control management Committee		Remuneration Committee		Appointment Committee		Executive Committee		Other Committee	
		100	1										
		100	1										
		100	1										
		80	3										
		80	0										
		100	0										
		100	4										
	Yes	100	9	X	100			X	100			X	100
	Yes	100	20	X	100	X	100					X	100
	Yes	100	38	X	100	X	100	X	100			X	100
	Yes	100	4			X	100	X	100				
BOD: 5				ICC: 10		RC: 6		AC: 3		EC		Other Comm.: 0	

# Attachment 1

## Main characteristics of the internal Control and Risk Management System in relation to the financial disclosure process

### ■ INTRODUCTION

#### **The Internal Control and Risks Management System and its purposes**

In line with proven governance best practices, the Internal Control and Risk Management System (ICRMS) of the Company can be defined as the range of processes and actions designed to provide reasonable assurance in relation to the achievement of certain fundamental objectives:

- effectiveness and efficiency of management activities (including in relation to safeguarding shareholders' equity);
- assurance, accuracy, reliability and timeliness of operational information, in particular information inherent to the financial statements;
- compliance of company behaviour with applicable laws and regulations.

The Board of Directors (BoD) is responsible for the adequacy of the ICRMS, which appoints a management audit Committee (which also acts as the Control and Risks Committee).

In line with principle 7.P.3 (i) of the Self-Governance Code issued by the Corporate Governance Committee - Code published on the website of Borsa Italiana and adopted by Engineering Ingegneria Informatica S.p.A., the Board of Directors appointed Paolo Pandozy (Chief Executive Officer of the Parent Company) as "Internal Control and Risk Management System Director appointed" (hereafter, in short: "ICRMS Director appointed").

In compliance with criterion 7.C.1 of the above mentioned Self-Governance Code the Board, on the proposal of the ICRMS Director appointed, with the prior favourable approval of the Control and Risks Committee, appointed the Internal Audit Manager, operating under the Auditing and Quality management at Group level.

The Internal Audit unit provides the Board, the Management Audit Committee and the ICRMS Director appointed with adequate information to support their roles in relation to the ICRMS.

The following can be added to the initial definition of the Internal Control and Risk Management System:

- the internal control and risk management activities consist of a range of well-coordinated actions concerning company management as a whole;
- the internal control and risk management system is based on procedural elements, organisational structures, technical and IT supports, and above all on the individuals who effectively implement the controls;
- even an adequate control system can only provide reasonable assurance and not absolute assurance as to the achievement of company goals;
- only after an adequate risk analysis it is possible to design and implement the range of controls capable of reducing risk probabilities and, where possible, limiting their impact.

### Framework adopted for the management of the Internal Control and Risk Management System

Determining the adequacy or otherwise of the procedures and related controls requires the preliminary identification of a framework that takes account of all elements related to the Internal Control and Risk Management System. The ICRMS objectives identified in the preceding paragraph are in line with the contents of the report by the Committee of Sponsoring Organisations of the Treadway Commission (CoSO Report), a universally proven framework for the design and assessment of risk management and control systems adopted by companies.

Engineering Ingegneria Informatica S.p.A. uses the CoSO Report for the management of its Internal Control and Risk Management System and, more specifically, for the fulfilment of financial reporting objectives, also in terms of the Consolidated financial statements.

In accordance with the CoSO Report, the ICRMS consists of five components interconnected with management processes:

#### Control environment

The control environment refers to the “Management philosophy” of the company, the integrity of the managers and, in general, the ethical values established and practiced as essential components of the corporate “culture”. The expression “Tone at the Top”, often used in this context, is particularly significant insofar as it also expresses the commitment of top management to the adequate definition and implementation of the Internal Control and Risk Management System.

#### Risk assessment

This framework component supports four phases:

1. *defining objectives*: consists of definition and analysis of corporate objectives; this phase is carried out following company assessment of “risk tolerance” and “risk appetite”;
2. *identifying risk-associated events*: this phase identifies the events and circumstances that could result in a in whole or in part the fulfillment of an objective;
3. *risk assessment (in the strict sense)*: each individual risk is assessed in terms of:
  - probability of occurrence
  - impact on objectives in economic, terms, effect on reputation etc.
4. *risk management*: this phase establishes whether previously assessed risks should be managed in-Company <sup>(1)</sup>.

#### Control activity

This framework component refers to the range of actions to be taken to ensure reasonable containment of corporate risks through the provision and execution of a series of controls and activities aimed at:

- prevention (*ex-ante*)
- occurrence (*ex-post*) of errors and fraud.

(1) The possible options with regard to specific risk management are:

- avoidance
- verification
- reduction (below the “risk appetite” level) sharing (involving another entity, e.g. an insurance company, in managing potential impacts).

### Communication and information system

This framework component supports the ICRMS:

- in dissemination ethical principals and regulations governing behaviour in the Company;
- in disseminating planned objectives, in varying levels of detail, which apply to all individuals;
- in publishing/disseminating internal procedures governing various company processes, with particular reference to the controls to be applied;
- in disseminating and providing, on a need-to-know basis, information and data subject to controls;
- in bottom-up transmission to management of evidence of the effective implementation and efficacy of the ICRMS.

Information must be transmitted in accordance with a number of requirements, including: completeness, adequate timeliness, necessary comprehensiveness and, where required, confidentiality.

### System Monitoring

This component is aimed at ICRMS supervision capable of identifying, on a continuous basis, any necessary improvements in terms of effectiveness and/or efficiency.

In light of the above considerations, monitoring activity can clearly have an impact on all of the above framework components, particularly on risk assessment.

## ■ SUMMARY COMMENTS ON THE APPLICATION OF THE ENGINEERING ICRMS FRAMEWORK

As mentioned, Engineering Ingegneria Informatica S.p.A. adopted the CoSO Report for the management of its Internal Control and Risk Management System. Application of the framework entails the full involvement of the whole Engineering organization. Below is a brief summary of the main participants and activities that are significant for the various framework components.

### Control environment

The Executive Management and all top management play a key role in this component.

A large number of elements require the attention of Top Management in relation to the control environment, including the management (or, where necessary, redefinition) of organisational structures, with emphasis on accountability; intervention in training programmes; updating of the Internal Information System; and continuous support for the Internal Audit function, to name but a few.

It should be noted that in recent years Executive and top management of the Parent Company have promoted the progressive integration of the various Group companies, thereby creating:

- increasingly centralized provision of services,
- internal procedures applied throughout most of the Group companies,
- an increasingly shared information system, with uniform management of data, applications and controls applied.

In addition to references to ethical principles and behaviour regulations repeatedly emphasized by managers during internal meetings, it should be noted that as of February 13, 2004 the Engineering Board approved and published the Engineering Group Code of Ethics, which has been continuously updated over the years and has become an integral and substantial part of the Management and Organisational Model as per Legislative Decree 231/01 adopted by Engineering.

### Evaluation of risks

The key role is most certainly undertaken by the ICRMS Director appointed. A key role is also played by Senior Management (Chairman, Vice Chairman and Executive Directors) and Company Managers belonging to:

- Administration, finance and control general Management, the head of which is appointed Manager in charge of preparing corporate accounting documents as per Law 262/2005 (the Manager in charge)
- Personnel and organisation general Management

- Communications & marketing general Management
- Sales and marketing general Management.

Engineering management is constantly active in this area, including in the areas of top-down dissemination of corporate objectives and risk identification, assessment and management, as evidenced by the many updates and improvements throughout the year to Group internal procedures, such as systems for the delegation of powers.

### Control activity

It is more difficult to identify individual “key” roles for these components, since control activity is:

- intrinsic and systematic at an operational process level
- conducted continuously by medium-high level management and by the Auditing and Quality Division (AQD).

The Internal Audit function and, on the whole, the AQD play a particularly important role for this component in Engineering. The annual planning for checks performed by the AQD Auditor are all-encompassing through all O.U.s in all Group companies: production structures, commercial structures, accounting and administration structures etc.

It should also be noted that in Engineering Group many controls are implemented within the IT applications supporting many macro-processes: Accounts Receivable, Accounts Payable, Analytical and General Accounting Management, Personnel Management, Internal Information System Access Management, to name but a few.

### Communication and information system

For this component, it should be noted that traditionally in Engineering internal communication between people belonging to different hierarchical levels is free and often informal, in the sense that it is not influenced by the position of the correspondents within the company (or each individual's level of responsibility). This is significant because it objectively facilitates the mutual exchange of information, particularly in terms of indicating misstatements, anomalies and, potentially fraud (which is relevant in this context).

More generally, the extensive network of channels available to Group employees, based on a continuously expanding and improving technological infrastructure, is widely used to exchange updated and timely information that must drive an effective Internal and Risk Management Control System.

### System Monitoring

A number of individuals in Engineering play a role in this component:

- The ICRMS Director appointed and, also within the Board, The Management Audit Committee,
- Top Management and in particular the Manager in Charge,
- the Auditing and Quality Division (AQD)
- the Supervisory Body (as per Legislative Decree 231/01).

Each operates within the context of their own legal/institutional function, according to their individual level of independence and autonomy.

In addition to the above, other external individuals may be called upon to carry out assessments and monitoring in certain Group companies: this refers to Certification and Assessment Bodies that have issued certification: ISO 9001, Nato AQAP, ISO 27001, PCI, CMMi, ISO 14001.

In this framework component, the role of the AQD may be defined as topologically central, in the sense that its activities to verify the effective application of company procedures and, more generally, on the “watertightness” of the ICRMS, generated information flows that were made available to all other participants listed above.

## Description of the main characteristics of the Internal Control and Risk Management system in place in relation to the financial disclosure process

### ■ THE INTERNAL CONTROL AND RISKS MANAGEMENT SYSTEM PHASES

#### Audit objectives

With specific reference to financial reporting, a “risk” is identified as a possible event whose occurrence could compromise the fulfilment of ICRMS objectives, i.e. assurance, accuracy, reliability and timeliness of financial reporting.

In other words, the purpose of the ICRMS is to ensure that the financial reporting process satisfies the following objectives or “assertions” associated with each item in the financial statements:

- *existence and allocation*: the assets and liabilities exist and the book entries represent actual events;
- *completeness*: all the transactions and events are effectively recorded, without omissions;
- *rights and obligations*: the company owns, or controls, the rights on the assets and the liabilities are actual Company obligations;
- *measurement and recognition*: the assets, liabilities and shareholders’ equity are entered in the financial statements at an appropriate value and all value or classification adjustments are correctly recorded according to proper, generally accepted, accounting standards;
- *presentation and reporting*: the economic and financial information is presented and described in an adequate manner; reporting is complete and clearly expressed.

#### Risk identification

In accordance with Law 262/2005, the Manager in Charge at Engineering Ingegneria Informatica S.p.A. (responsibility conferred to the CFO) prepared the adequate administrative and accounting procedures for the preparation of the Financial Statements for the year and the Consolidated Financial Statements, as well as the procedures for issuing all other communications of a financial nature.

These procedures provide for their internal controls, not limited solely to accounting issues connected with the closure process alone, but extended to those processes that precede the preparation of the financial statements; processes (known as transactional processes) that involve operative company functions that participate in the phases preceding the accounting cycle. This is particularly relevant for Engineering Group, where integrated IT systems are widely used, which mean the control of the correctness and completeness of accounting data takes place increasingly distant from book entry and increasingly nearer to the origin of the underlying transaction.

For a description of the procedures adopted by the Engineering Group to identify risks affecting financial reporting, please refer to the approach outlined in the Organisation and Management Model as per Law 262/05.

#### Assessment of risks related to financial reporting

For each risk identified in the preceding phase, an assessment of the importance of the risk is expressed.

This assessment is formulated, on a qualitative level, according to a five-value scale: from “very low” to “very high”.

This risk assessment is essentially based on the financial statement item corresponding to the risk-related process/sub-process, since the applicable controls are not considered in this phase.

#### Control system implemented against risks

Prior to the phases described in this document, the Manager in Charge consider, for each risk identified and assessed, the controls effectively implemented to mitigate the risk. For this purpose existing company procedures are analyzed to verify whether or not the controls in place are appropriate for the specific risk. Where the risk control is found to be insufficient, the control is adjusted and the company procedures for the relative process are updated.



### Assessment of controls implemented to counter identified risks

This is the “monitoring” phase of the ICRMS and consists mainly of ongoing supervision and assessment of the effectiveness and efficiency of the Internal Control and Risk Management System.

The AQD Auditors:

- plan the individual checks, gathering prior to meeting the representatives of the Organisational Unit <sup>(2)</sup> under audit all information necessary to:
  - define sensitive ongoing activities and processes and progress data;
  - map a framework of risks affecting the O.U., drawing also on any evidence from previous audits;
- carry out at the O.U. a direct examination of the operating processes, adopting adequate sampling techniques and conducting interviews with the Managers of the processes/subprocesses checked;
- analyse the evidence using check lists that cover:
  - the risk/control matrix for administrative/accounting processes;
  - company procedures that provide a detailed description of the controls;
  - the applicable laws and regulations, particularly the Engineering Group Code of Ethics;
- prepare an audit report detailing (in addition to a summary of the checks performed):
  - non-conformities identified in the processes studied (classified in order of severity);
  - residual risks deemed unacceptable due to the shortcomings in the design and/or application of the relevant controls;
  - (with regard to non-conformity) the corrective actions agreed with the Representatives following the checks;
- send the report to the Chief Executive Officer, the Manager in Charge and the Managers of the audited O.U..

### Reporting to Management

Management receives ongoing updates of the adequacy and operativity of the ICRMS.

The AQD, which manages a database of information acquired through auditor checks at Group O.U.s, is a primary source of information.

At least twice a year, the AQD Manager sends a summary report on the checks made during the period, any non-conformity and the principal corrective actions agreed with the Representatives to the ICRMS Director appointed of the Parent Company (appointed by the Board). In certain circumstances, the AQD Manager also sends the audit reports he considers particularly significant. The Committee and the Director appointed in turn inform the AQD Manager of any important elements relating to control activity.

In addition, the AQD and Manager in Charge work closely together. With particular reference to financial reporting, any significant problems identified by the auditors are usually directly discussed by the AQD and Manager in Charge in order to assess the dimensions of the misstatement or irregularity, its causes and the size of the related risk to enable the Manager in Charge to prepare an assessment in appropriate ICRMS improvements. Conversely, when the Manager in Charge becomes aware of specific risk situations, the Manager usually involves the AQD, which updates the annual audit programme on the basis of the new needs.

In addition, the AQD Manager attends meetings of the Supervisory Body (in accordance with Legislative Decree 231/01). At Supervisory Body meetings (held approximately every forty days), the entire Body is informed of the principal problems identified during O.U. visits, including those relating to proper management of data contributing to the Financial Statements.

(2) Of the Parent Company or other Group companies.

### Roles and functions involved in the Internal Control and Risk Management System

A large number of people within the Group are involved in ensuring the effectiveness and efficiency of the ICRMS.

The corporate procedures, the Organisation and Management Control Models adopted (as per Law 262/05 and Legislative Decree 231/01) and the resolutions of the administrative bodies set out precise roles and functions in relation to ICRMS management.

The following persons and structures are involved:

- *Structure Divisions*: the O.U.s appointed to conduct 1<sup>st</sup> level operation controls. "Process owners" operate within these divisions (responsible for correct process running). Report to Divisions of the Parent Company and subsidiaries.
- *Manager in Charge*: the prerogatives attributed to the Manager in Charge (of the Parent Company and, where identified and competent, subsidiaries) are exclusive with regard to administrative/ accounting procedures and for all procedures that affect the preparation of the Financial Statements and documents subject to certification by law.
- *Personnel and organisation general management Division*: the prerogatives of the Division in relation to corporate procedures are understood to be complementary to those of the Manager in Charge. It is a centralized structure at a Group level.
- *Management audit Committee (also comprising the control and risks Committee)*: a Parent Company Body.
- *ICRMS Director appointed*: an executive Director of the Parent Company.
- *AQD*: a centralized structure at a Group level.

(NB.: In the table below, "P" indicates a primary role and "X" indicates non-primary involvement).

Person/structure	Design/ implementation/ audit of ICRMS controls	Verify adequacy of control design	Verify effective operation of the controls	Monitoring of the ICRMS	Updating documents which outline ICRMS (operational activities)
Structure Divisions	X		P		
Manager in Charge	P	X	X	X	
Personnel and organisation general management Division	P	X	X	X	P
Management Audit Committee				P	
ICRMS Director appointed	P	P		X	
AQD		P	P	P	X

## 1. Additional Corporate Governance practices

It should be noted that the auditing activity, at Group level, performed by the Auditing and Quality Division (AQD) in 2012, together with the updating to the Organisation and Management Models (as per Legislative Decree 231/01) amounted to 1,538 work-days. In the same year 263 audits were carried out in the Group.

107 non-conformities (or irregularities) were identified and classified under two distinct levels of severity, with an average of 0.41 non-conformities per single audit.

The AQD Auditor team used specific check-lists designed to take account of the most common and significant risks. These check-lists provide for over 100 control types.

The database managed by the AQD documents AQD activities throughout the calendar year and allows for statistical processing including:

- the amount of “revenue” subject to auditing (the revenue sum of orders subject to checks during the year’s audits)
- comparative analysis of the conformity level identified through auditing in the audited Organisational Unit’s business area.

In 2012 the AQD implemented an algorithm which:

- based on the priorities assigned to the various types of risks identified within the Group
- taking account of the specific risk exposure which characterises the various Group departments

provides an evaluation criteria on the appropriateness of the annual audit plan in relation to the company risks and, in general, in relation to the objectives of the ICRMS.