

**ACOTEL GROUP SpA**

**2016**

**REPORT ON CORPORATE GOVERNANCE AND  
OWNERSHIP STRUCTURE**

pursuant to article 123-bis of the CFA

(traditional management and control model)

**approved by the Board of Directors on  
28 March 2017**

**[www.acotel.com](http://www.acotel.com)**



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## GLOSSARY

**Code/Corporate Governance Code:** the Corporate Governance Code for listed companies approved, in July 2014, by the Corporate Governance Committee set up by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime and Confindustria.

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

**Board:** Acotel Group SpA's Board of Directors.

**Issuer:** Acotel Group SpA.

**Annual reporting period:** 1 January 2016 – 31 December 2016 ("2016").

**CONSOB Regulations for Issuers:** the Regulations issued by CONSOB with Resolution 11971/1999 (as subsequently amended) governing issuers.

**CONSOB Market Regulations:** the Regulations issued by CONSOB with Resolution 16191/2007 (as subsequently amended) governing markets.

**CONSOB Regulations governing Related Parties:** the Regulations issued by the CONSOB with Resolution 17221 of 12 March 2010 (as subsequently amended) governing related party transactions.

**Report:** the report on corporate governance and ownership structure that companies are required to prepare by art. 123-*bis* of the CFA.

**Consolidated Finance Act/CFA:** Legislative Decree 58 of 24 February 1998.

## 1. PROFILE OF THE ISSUER

Acotel Group SpA is the holding company of the Acotel Group, which operates around the world in digital entertainment, in services regarding professional monitoring of energetic consumption, remote controlling, security and *programmatic advertising*.

The Group operates in three business areas. The first, called Acotel Interactive, develops and commercialises digital entertainment services for use over the web and mobile phones, value added services for mobile operators and interactive advertising services. Management of this business area is the responsibility of the New York based company with the same, which operates directly and through its subsidiaries and associates in Italy, Spain, Mexico, Brazil, Colombia, Ecuador, Peru and India. The commercial offering is developed centrally and then adapted for the various markets by locally based personnel.

The second business area, Acotel Net, specialises in the development and commercialisation of innovative products and services for managing the consumption of energy, water and gas, developed entirely in-house and marketed under the **Acotel Net** brand, and in the production of security systems for major companies and public entities in Italy.

By its third business area, Bucksense, the Group operates internationally supporting and enabling its customers with tools that allow them to identify and reach their ideal target customer, using a technology platform developed in-house for online media planning, buying and optimisation.

The Group's strengths include its technological independence and its full ownership of the technology platforms used to supply its services.

Acotel Group SpA is based in Rome and operates internationally, with branches and offices in Rome, New York, Rio de Janeiro, Madrid and Mombay. At 31 December 2016, the Group employed 174 people.

## CORPORATE GOVERNANCE

The Acotel Group SpA's corporate governance system is based on the so-called traditional model, in which the Board of Directors is responsible for management of the Company's operations, the Board of Statutory Auditors is responsible for supervisory functions and the independent auditors appointed by the General Meeting of shareholders for auditing the Company's accounts.

The Board appoints a Chief Executive Officer (CEO) with responsibility for managing the Company, assigning him all the necessary executive powers. The CEO is assisted by executive Directors, who are assigned powers in keeping with their respective roles.

The Board has instituted two Board Committees with consultative and advisory functions: the Nomination and Remuneration Committee and the Internal Audit Committee, both of which have two members, all independent.

This report describes the corporate governance system adopted by the Acotel Group, which is based on the Corporate Governance Code approved in July 2014 (the Code) and the Format for Corporate Governance Reports issued by Borsa Italiana SpA in January 2015.

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE (pursuant to art. 123 bis, paragraph 1 of the CFA).**

### **a) Share capital structure**

At 31 December 2016, the fully subscribed and paid-up share capital of Acotel Group SpA amounts to 1,084,200 euros, and consists of 4,170,000 ordinary shares with a par value of 0.26 euros each.

The Company has not issued for sharing categories different from the ordinary ones or other financial instruments granting the right to subscribe newly issued shares. Similarly, it does not use share incentive plans (share options, share grants, etc.) involving capital increases, including bonus issues.

### **b) Restrictions on the transfer of securities**

There are no statutory restrictions on the transfer of securities, such as, for example, limits on share ownership or the need to obtain the agreement of the Issuer or of other shareholders.

### **c) Major shareholdings**

The disclosure of shareholders who, directly and indirectly, hold significant interests in Acotel Group SpA, based on the reports filed pursuant to art. 120 of the CFA, integrated by other information available to the Company, is provided in the attached Table 1.

### **d) Securities that carry special rights**

No golden shares have been issued.

### **e) Employee share ownership: mechanism for exercising voting rights**

The Company has not introduced any form of employee share ownership.

### **f) Restrictions on voting rights**

There are no restrictions on voting rights.

### **g) Shareholder agreements**

There are no shareholder agreements within the meaning of article 122 of the CFA.

### **h) Change of control covenant and statutory provisions concerning OPA**

Neither Acotel Group SpA nor any of its subsidiaries has entered into material agreements that will become effective, will be amended or terminated in the event of a change of control of the reporting entity.

The By Law of the Issuer does not provide derogations over the *passivity rule* in accordance with the section 104, paragraphs 1 e 1-bis, of TUF, nor the application of the rules for neutralization in accordance with the section 104, paragraphs 2 e 3, of TUF.

### **i) Authority to increase the share capital and to repurchase own shares**

The Board of Directors has not been granted any authority to increase the share capital pursuant to art. 2443 of the Italian Civil Code and cannot issue participating financial instruments.

At the date of preparation of this Report the Board of Directors has not been granted authority to purchase the Company's own shares, as permitted by articles 2357 *et seq.* of the Italian Civil Code.

### **l) Management and coordination**

Despite being a subsidiary of Clama Srl pursuant to art. 2359, paragraph 1, point 2 of the Civil Code, Acotel Group SpA is not subject to management and coordination either by the parent or by other companies or entities, given that it does not receive instructions from third parties, but has fully independent control over its general and operating policies.

With regard to management and coordination activities carried out by the Issuer in respect of its subsidiaries, such activities regard the establishment of general and operating policies, the definition and monitoring of their internal control systems, governance models and organizational structures, and the establishment of shared policies for the management of human and financial resources.

The management and coordination activities conducted by the Parent Company enable its subsidiaries, who maintain their management and operational independence, to obtain economies of scale by benefitting from shared specialist expertise, thereby focusing their resources on managing their respective businesses.

### 3. COMPLIANCE (pursuant to art. 123-bis, paragraph 2, letter a) of the CFA)

Acotel Group SpA complies with the Corporate Governance Code available to the public on the Corporate Governance Committee's website (at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf>). It thus gives the reasons for its decision not to apply one or more of the Code's recommendations in this Report.

Acotel Group SpA's corporate governance structure is not influenced by legislation outside Italy to which its key subsidiaries are subject.

### 4. BOARD OF DIRECTORS

#### 4.1. ELECTION AND REPLACEMENT (pursuant to art. 123-bis, paragraph 1, letter l) of the CFA)

The text of art. 16 of the Articles of Association is reproduced below in its recently amended version after compliance with the provisions of Law 120 of 12 July 2011 regarding gender quotas. The amended Articles were approved by the General Meeting held on 24 April 2014. This article establishes the procedure for electing Board members by slate vote.

The new election procedure was applied for the first time during re-election of the Company's Board of Directors and Board of Statutory Auditors on 24 April 2015, when, in accordance with the above legislation, it was decided that the least represented gender must should account for at least one-fifth of the total number of Directors.

*"SECTION IV  
Management  
Article 16*

*The Company shall be managed by a Board of Directors consisting of not less than 3 and no more than 9 members to be elected by Ordinary General Meeting of shareholders.*

*Directors shall be elected for a period, which may not exceed three financial years, to be established at the time of election. Their term of office shall expire on the date of the General Meeting called to approve the financial statements for the last financial year of their term. Directors are eligible for re-election.*

*Directors shall be elected by Ordinary General Meeting on the basis of lists submitted by shareholders, on which candidates must be listed in consecutive numerical order. Only shareholders who hold, either singly or jointly with other shareholders, voting shares representing at least one-fortieth of the issued share capital carrying the right to vote at Ordinary General Meetings shall have the right to submit lists, or, in the event of this percentage no longer being allowed by changes in the relevant legislation or regulations, the maximum permitted number shall apply.*

*The lists submitted must be must be deposited at the Company's registered office at least twenty-five days before the date of the General Meeting.*

*The Company shall publish the lists on its website and in the other forms provided for by CONSOB regulations, pursuant to art. 147-ter, paragraph 1 of Legislative Decree 58/1998, at least twenty-one days before the General Meeting.*

*Each shareholder who singly or jointly submits a list must deposit the certificate issued by an intermediary, providing proof of their right to submit such a list, at the Company's registered office at the same time as submitting the list or, subsequently, provided that it is within the deadline for publication of the lists by the Company, pursuant to the regulations in force.*

No shareholder may submit or vote for more than one list, including by proxy or trust company. Each candidate may be included in one list alone on pain of ineligibility. The lists submitted must be deposited at the Company's registered office at least twenty-five days before the date of the General Meeting in first or single call and must indicate the candidates, who must not be less than two, who qualify as independent as defined by law and /or the codes of conduct drawn up by the stock market regulator or trade associations. Proof of deposit must be provided in the form of a receipt issued by the entity appointed by the Company for this purpose.

Lists containing a number of candidates equal to or higher than three may not consist of just one gender (male and female). The lists must include a number of candidates from the least represented gender such as to ensure that the composition of the Board of Directors complies with the legal and regulatory requirements, from time to time in force, regarding gender quotas (male and female). Should the application of gender quotas, as required by law, not result in a whole number of Board members, this number shall be rounded up to the nearest whole number.

Within the above term, each list must be accompanied by a statement from each candidate declaring that they accept their candidacy and providing a personal warranty that there is no fact or deed that could give rise to their disqualification and that they meet the legal requirements for holding such office. Each candidate's statement must be accompanied by a curriculum vitae, containing their personal and professional details and, where appropriate, confirmation that the candidate meets the legal requirements to qualify as an independent Director.

Any list that does not satisfy these requirements shall be deemed invalid.

All the candidates on the list that obtains the highest number of votes shall be elected to serve as Directors in the consecutive numerical order in which they are listed, with the exception of one candidate who shall be drawn, from among the candidates qualifying as independent under the law, from the list that obtains the second highest number of votes.

If, on completion of the election, the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) have not been complied with (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members), the candidate elected from the most represented gender ranked last in the list obtaining the majority of votes shall be replaced by the unelected candidate, taken from the same list, belonging to the other gender. If it is not possible to draw, from the list obtaining the majority of votes, the number of Directors of the least represented gender necessary in order to comply with the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members), the necessary Directors shall be elected by the General Meeting according to ordinary procedures and by ordinary majority.

Should only one list be submitted, all the candidates on that list shall be elected Directors, subject to prior approval of the General Meeting, in compliance with the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members).

Should no lists be submitted, or should it not be possible, for whatever reason, to elect the Directors following the above procedure, the General Meeting shall elect members of the Board by majority vote, in compliance with the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members).

If, during the year, one or more Directors leaves office, the others shall proceed to replace them by resolution to be approved by the Board of Statutory Auditors, provided that the majority of the Directors in office were elected by General Meeting. The election must take into account the original lists submitted and the new Director must be chosen from the list to which the outgoing Director belonged. If this is not possible (where there are no further names on the list, or because the replacement fails to accept the position or for other objective reasons), the new Board member will be chosen freely, in compliance with the legal and regulatory requirements, from time to time in force, concerning gender quotas.

The General Meeting may, however, vote to reduce the number of members of the Board of Directors to the number of Directors in office for the residual duration of their term, provided that the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members) are complied with.

Should, for whatever reason, a majority of the Directors elected by the General Meeting leave office, the term of office of the entire Board shall be deemed to have expired. In this case, the Chairman of the Board of Statutory Auditors must immediately call a General Meeting to elect a new Board of Directors."

When General Meetings are called to re-elect the Board of Directors, the lists of candidates for election to the Board, accompanied by the candidates' personal and

professional details, are published on the Company's website in the "Investor relations" section.

The Board of Directors has opted not to establish any form of succession planning for executive Directors, given the significant concentration of ownership in the hands of the founder and his family, who are actively involved in management of the Company and its subsidiaries.

#### **4.2. COMPOSITION (pursuant to art. 123-bis, paragraph 2, letter d) of the CFA)**

The Ordinary General Meeting of the Company's shareholders held in Rome on 24 April 2015 elected the following persons to serve as members of Acotel Group SpA's Board of Directors:

Francesco Ago;  
Margherita Argenziano;  
Claudio Carnevale;  
Rubens Esposito  
Giovanni Galoppi.

At the above General Meeting, Claudio Carnevale was elected Chairman of Acotel Group SpA's Board of Directors.

All Acotel Group SpA's Directors will remain in office until the General Meeting called to approve the financial statements for 2017 and were drawn from the single list submitted by the shareholder, CLAMA Srl, which was voted for by all the shareholders present at the General Meeting, representing 57.384% of the voting shares.

In view of the limited number of directorships or appointments as statutory auditors held by its members in other listed companies (including overseas), in finance companies, banks, insurance companies or large corporations, the Board of Directors has not found it necessary to establish a maximum number of directorships or appointments as statutory auditors in such companies.

It is, therefore, the individual responsibility of each Director to only accept the position when he or she believes they are able to dedicate sufficient time to the role and act and vote in full knowledge of the facts and independently.

Between 31 December 2016 and the date of preparation of this Report, there have been no changes in the composition of the Company's Board of Directors.

Whilst the Company has not organised specific initiatives with the aim of providing the Directors with adequate knowledge of the sector in which the Issuer operates, of the Company's operations and their evolution, or on the related regulatory environment, management deems that the Acotel Group SpA's Directors are sufficiently prepared for their roles, if for no other reason than because of their areas of specific expertise. During Board meetings the Chairman provides a thoroughgoing explanation of the sector in

which the Company operates, the Company's operations and their evolution, and of the regulatory environment.

#### **4.3. ROLE OF THE BOARD OF DIRECTORS (pursuant to art. 123-bis, paragraph 2, letter d) of the CFA)**

Acotel Group SpA's Board of Directors met eight times in 2016, with less than three months between each meeting: the Articles of Association do not establish a minimum frequency for Board meetings.

Attendance at Board meetings was 97.50%, if calculated on the basis of all Directors, and 93.75%, if based solely on independent Directors. The average duration of the meetings was 134.38 minutes.

The Financial Calendar for 2017, which has already been published, envisages that Board meetings will be held to approve the financial statements for the year ended 31 December 2016 (14 March 2017), the interim report for the six months ended 30 June 2017 (27 September 2017) and the quarterly reports for the three months ended 31 March 2017 (15 May 2017) and the nine months ended 30 September 2017 (13 November 2017). Other Board meetings will be called as the need arises.

The Board of Directors of *Acotel Group SpA* has held four meetings so far in 2017. This Report was approved during the last of these meetings.

Prior to each meeting, the Chairman of the Board shall ensure that all members of the Board are provided, in a timely manner, with the documentation and information required for the deliberation of proposed resolutions. The Chairman shall also ensure that sufficient time is dedicated to each agenda item in order to enable constructive discussion to take place, encouraging each Director to contribute to such discussion.

As it was not necessary to take major decisions during the meetings held in 2016, for reasons of confidentiality and urgency, information was only provided during the Board meetings called to deliberate on proposed resolutions.

During the 2016 the Directors and the Statutory Auditors of Acotel Group S.p.A., considering also the long term personal relationships, have continuously met some Group's Managers in order to obtain significant information useful for the coverage of their engagement.

The principal responsibilities of Acotel Group SpA's Board of Directors are:

- to examine and approve the strategic, business and financial plans of the Company and Group companies, the Company's corporate governance system and the structure of the Group;
- to determine the nature and level of risk compatible with the Company's strategic objectives, following an assessment that is to include all risks that could potentially have a major impact on the medium- to long-term sustainability of the Company's and the Group's operations.

With reference to this topic, the Board of Directors is supported by the group of internal auditors in order to formalize the Risk Assessment Model (every 2years) and the yearly Audit Plan. Both documents are duly approved by the Board of Directors;

- to assess the adequacy of the overall organisational and administrative structures of the Company and its largest subsidiaries;
- to assign, and eventually revoke, the powers of executive Directors, establishing the limits, the method of exercising such powers and the frequency, which should not be less than quarterly, with which they must report on their activities in carrying out the powers assigned to them;
- to fix, having examined the proposals of the remuneration committee and consulted the Board of Statutory Auditors, the remuneration of executive Directors and other Directors with key roles;
- to assess the overall operating performance, based on information received from executive officers, and periodically comparing the actual results with budget targets;
- to examine and approve transactions conducted by the Issuer and its subsidiaries, when such transactions are of significant strategic importance or have a significant impact on the Issuer's results of operations, the financial position and cash flows, with particular regard to situations in which one or more Directors represent their own or third-party interests and, more generally, related party transactions;
- to assess, at least once a year, the size, composition and functionality of the Board itself and of Board Committees and their size and composition;
- to use the corporate governance report to provide information on: (1) the Board's composition, indicating, for each member, the related category of Director (executive, non-executive, independent), their role within the Board (for example, Chairperson or Chief Executive Officer, as defined in article 2), a summary of each Director's professional experience and the length of time they have held the position since they were first elected; (2) the number and average duration of Board meetings and Executive Committee meetings, if held, during the year, and the related percentage attendance for each Director; (4) the procedures used in conducting the above self-assessment;
- to adopt, on the recommendation of the Chief Executive Officer or Chairperson of the Board, a procedure for the internal management and publication of documents and information relating to the Company and the Group, with specific reference to confidential information, and to check the correct application of such procedure.

The above roles are carried out during Board and Board Committee meetings, following reports by executive Directors, and via meetings with the Board of Statutory Auditors, the Supervisory Board set up in compliance with Legislative Decree 231/01, the independent auditors and the management of the Company and its subsidiaries. The checks carried out in 2016 did not reveal any critical issues to be included in this Report.

During Board meetings held to approve the annual and interim financial statements, the Board of Directors shall assess the Company's overall performance, taking into account, in particular, the information received from executive officers, and periodically comparing the results achieved with the relevant objectives.

When appointing the Chief Executive Officer, the Board of Directors, in addition to what is expressly provided for by law, regulations and the articles of association, reserved sole authority for the Board to take decisions regarding investments in other companies and property, financial and surety transactions, where such transactions exceed a certain predetermined threshold (see 4.4).

During the Board meeting that approved this Report, the Board of Directors assessed its functionality and that of the Board committees.

In particular, the following were deemed consistent with the needs of the Company and regulatory requirements:

- the overall size of the Board of Directors (5 members);
- the overall balance between executives (3 members) and non-executives (2);
- the different professional experiences and expertise contributed by the individual Directors;
- the number of Board committees established (2);
- the number of Board and committee meetings held in 2016;
- the quality and timeliness of the information provided to Directors;
- the time allocated during Board meetings to each agenda item;
- interaction between the various corporate bodies;
- the possibility for each Director to have independent access to the various departments within the Company.

The General Meeting has not held it appropriate to authorise a general and prior exemption from the non-competition provisions of article 2390 of the Italian Civil Code.

#### **4.4. EXECUTIVE OFFICERS**

##### **Executive Directors and the Chairman of the Board**

At its meeting of 15 May 2015, the Board of Directors elected the Chairman, Claudio Carnevale, to serve as Chief Executive Officer, granting him all the powers necessary to ensure effective and timely management of the Company.

In addition to what is expressly provided for by law, regulations and the articles of association, the decisions regarding the following matters are reserved exclusively for the Board:

- the purchase, including through participation in the incorporation, sale, exchange and contribution of units and/or shares in other companies with a value, per transaction, in excess of €1,500,000 (one million, five-hundred thousand);
- the purchase, sale, exchange and contribution of property and real property rights with a value, per transaction, in excess of €1,000,000 (one million);
- the provision of sureties and collateral or personal guarantees of any form in the interests of third parties with a value, per transaction or per series of transactions completed in the same year, in excess of €1,000,000 (one million) and provided

that the related transaction(s) is/are not included in the business plan approved by the Board of Directors;

- the assumption, on whatever basis and for whatever reason, of borrowings or any other form of financial liability with an indefinite value or, in any event, in excess of €1,000,000 (one million) per transaction or per series of linked transactions, provided that the related transaction(s) is/are not included in the business plan approved by the Board of Directors;
- the grant or assumption of any form of loan, with a unit value in excess of €1,000,000 (one million) per transaction or per series of transactions completed in the same year, provided that the related transaction(s) is/are not included in the business plan approved by the Board of Directors.

There has been no case of an interlocking directorate, as Claudio Carnevale is not a director of another listed company.

The Board of Directors, partly in view of adoption of Model 231, which expressly provides for an authorisation system in which powers, including those of signature, are assigned in accordance with organisational and management responsibilities, granted specific powers to the Director, Margherita Argenziano, on 15 May 2015. This Director has, among other things, been granted authority to make payments or assume commitments on the Company's behalf for up to a maximum of €100,000 against her sole signature.

For the purposes of compliance with the regulations in force, members of the Board of Directors are classified as follows:

Executives:

- Claudio Carnevale: relative majority shareholder, Chairman and Chief Executive Officer;
- Margherita Argenziano: shareholder and Chief Executive Officer of subsidiaries;
- Giovanni Galoppi: the Director responsible for the internal control and risk management system.

Non-executives:

- Francesco Ago;
- Rubens Esposito.

Independents:

- Francesco Ago;
- Rubens Esposito.

The Chairman and Chief Executive Officer reports, at least quarterly, on the activities carried out and key events affecting the operations of the Company and its subsidiaries.

#### **4.5. OTHER EXECUTIVE DIRECTORS**

Mr. Giovanni Galoppi is deemed to be an executive Director, in view of his role as the Director with responsibility for the internal control system, appointed by the Board of Directors.

#### **4.6. INDEPENDENT DIRECTORS**

Francesco Ago and Prof. Rubens Esposito qualify as independent in accordance with the “Corporate Governance Code for Listed Companies”, in that they do not engage, nor have they recently engaged, including indirectly, in relations with issuers such as to compromise their independence of judgement.

At its meetings of 15 May 2015, the first one after the Board of Directors’ appointment and the one of 13 May 2015 Acotel Group SpA’s Board of Directors assessed the continuing independence of the Directors, Francesco Ago and Prof. Rubens Esposito, verifying the absence of all the instances mentioned in letters a) to h) of application criterion 3.C.1. of the Code, with the exception of, with regard to Francesco Ago alone, the instance mentioned in letter e) regarding positions held for more than nine years out of the last twelve.

The above exception, which was noted in the press release issued at the time of election pursuant to the regulations in force, was deemed to be irrelevant for the following reasons: that compliance with the provisions of the Code is, in accordance with the Code itself, voluntary; that the absence of the instances listed in the application criterion 3.C.1. is not binding for the Board, which has the option of adopting additional or even alternative criteria, giving investors an appropriate and reasoned explanation; that the assessment of independence must be carried out more with regard to substance than to form; that the authority and independence of Francesco Ago do not appear in any way compromised by the fact that he has been a Director of the Company over the last nine years.

During its meeting of 15 May 2015 and of 13 May 2016, the Company’s Board of Statutory Auditors acknowledged the correct application of the assessment criteria and procedures adopted by the Board in assessing the independence of the Directors, Francesco Ago and Rubens Esposito.

The independent Directors met 5 times during the year in the absence of other Directors.

#### **4.7. LEAD INDEPENDENT DIRECTOR**

On 15 May 2015, in accordance with the recommendations of the Code when the Chairman of the Board is also the Chief Executive Officer, or when the Chairman is the person who controls the Issuer, the Board of Directors elected Francesco Ago to serve as Lead Independent Director with the role of:

- guiding and coordinating the requests and contributions of non-executive Directors and, above all, independent Directors;
- working with the Chairman and Chief Executive Officer in order to ensure that the Directors are kept fully and promptly informed.

## **5. CORPORATE DISCLOSURES**

On 14 March 2014 the Board of Directors approved an internal procedure for publishing documents and information regarding Acotel Group SpA and the Group of companies for which it is the holding company.

This procedure, drawn up on the basis of the principles set out in the “Guide for market disclosures” published by Borsa Italiana SpA in June 2002, defines price sensitive information and forward-looking statements, and provides a detailed description of the procedures to be followed for their disclosure outside the Company, and the persons concerned and their responsibilities.

The procedure also establishes the approach to be adopted by the Company’s management at General Meetings and during meetings with analysts and investors, or in the event of rumours regarding the share price or the Company.

The Procedure for Market Disclosures is available on the Company’s website in the “Investor relations” section.

## **6. BOARD COMMITTEES (pursuant to art. 123-bis, paragraph 2, letter d) of the CFA)**

On 15 May 2015 the Board of Directors established the Nomination and Remuneration Committee and the Internal Audit Committee, electing the independent Directors, Francesco Ago and Prof. Rubens Esposito, to serve on both committees.

Francesco Ago was elected Chairman of the Nomination and Remuneration Committee, whilst Prof. Rubens Esposito was elected Chairman of the Internal Audit Committee.

The Board of Directors has verified that the professional experience of the above independent Directors is such as to enable the Board to deem that the principle, requiring at least one member of such committees to have adequate experience in matters relating to accounting and finance, has been complied with.

The committees’ roles were defined by the Board and included in the resolution that established them. The Board may add to or alter the above roles by voting a new resolution.

Minutes are taken of committee meetings.

Committee members have access to information and corporate functions as required in order to carry out their roles. They may also make use of external consultants or invite third parties to attend committee meetings in relation to individual items on the agenda.

## **7. NOMINATIONS COMMITTEE**

The Board of Directors did not deem it necessary to establish a committee with the sole purpose of making recommendations should there be the need to replace a Director, but has assigned such a role to the Remuneration Committee.

## **8. NOMINATIONS AND REMUNERATION COMMITTEE**

The Board of Directors has assigned the Nominations and Remuneration Committee, elected on 15 May 2015, responsibility for:

- providing opinions to the Board of Directors regarding the size and composition of the Board and making recommendations regarding professionals whose expertise may be of use to the Board and regarding the maximum number of Directors or Statutory Auditors deemed compatible with effective performance of the role of Director, taking into account Directors' membership of Board Committees;
- proposing candidates to the Board of Directors for the role of Director in the event of co-optation, when it is necessary to replace an independent Director;
- periodic assessment of the adequacy, overall compliance with and effective application of the remuneration policy for Directors and key management personnel, in the latter case based on information provided by the executive Directors, and the submission of proposals regarding such matters;
- the submission of proposals or the preparation of opinions for the Board of Directors on the remuneration of executive Directors and other Directors with specific roles, and the setting of performance targets linked to the variable component of remuneration; monitoring the application of decisions made by the Board, above all verifying effective achievement of the performance targets;
- fulfilling the functions of the Committee for Related Party Transactions.

In 2016, the Nominations and Remuneration Committee consists of two independent Directors.

In 2016, the Nominations and Remuneration Committee met on one occasion; the members of the Committee attended in the meeting, which had an average duration of 80 minutes.

The Committee did not exercise the option to involve external consultants paid for by the Company.

The Chairman of the Board of Statutory Auditors attended the meetings in 2016.

In 2017, the Nomination and Remuneration Committee has met once prior to the date of preparation of this Report to prepare the Remuneration Report which, pursuant to the regulations in force, must be presented to shareholders at the next General Meeting.

## **9. REMUNERATION OF DIRECTORS**

Additional disclosure with respect to the information below is provided in the Remuneration Report published pursuant to art. 123-ter of the CFA.

As described above, the Nominations and Remuneration Committee also carries out the functions of the Committee for Related Party Transactions. This has involved expressing the specific opinions required at the time of re-election of the boards of directors and boards of statutory auditors of the subsidiaries, AEM Acotel Engineering and Manufacturing SpA, Acotel SpA (within the date of the merge into Acotel Group S.p.A. completed in the 2016), Noverca Srl (within the date of its sale to Telecom Italia S.p.A. in October 2016) and Noverca Italia Srl (in liquidation) regarding the remuneration of the directors and statutory auditors of these companies, where some of them hold the same position at Acotel Group SpA.

Although the Remuneration Committee is informed about pay levels within the Group, it has not so far been involved in fixing the remuneration of staff, which is fixed in accordance with the powers assigned.

There are no share-based incentive plans for executive Directors or key management personnel.

The Board of Directors' fees of €150,000, as fixed by the General Meeting, are allocated, in accordance with the related shareholder resolution, equally among the Directors, who receive €30,000 each.

There are no share-based incentive plans for non-executive Directors.

**Indemnities to be paid to Directors in the event of resignation, dismissal or termination of employment following a public tender offer (pursuant to art. 123-bis, paragraph 1, letter i) of the CFA).**

There are no agreements between the Issuer and the Directors providing for the payment of indemnities in the event of resignation or dismissal/termination without just cause or termination of employment following a public tender offer.

The main features of the remuneration policy for executive Directors, other Directors with key roles and key management personnel are described in the Remuneration Report, prepared pursuant to art. 84-*quater* of the CONSOB Regulations for Issuers contained in Resolution 11971 of 14 May 1999, as amended. The Report will be available on the Company's website within the legally required deadline.

## **10. INTERNAL AUDIT COMMITTEE**

The Internal Audit Committee met four times in 2016. All the members attended the meetings, whilst the average duration of the meetings was 54 minutes.

In 2016, the Internal Audit Committee consisted of two independent Directors.

The Statutory Auditors and the Company's Chief Financial Officer were invited to attend the Committee meetings held in 2016.

The Committee did not exercise the option to involve external consultants paid for by the Company.

In 2017, the Internal Audit Committee has met twice prior to the date of preparation of this Report, in part to carry out the duties assigned to it by the Board of Directors, consisting of assistance to the Board in preparing this Corporate Governance Report.

### **Functions assigned to the Internal Audit Committee**

In the resolution establishing the Committee, the Board assigned the Internal Audit Committee responsibility for assisting it in:

- defining guidelines for the internal control system, so that the principal risks to which the Company and its subsidiaries are exposed are correctly identified, and adequately measured, managed and monitored, also establishing criteria for assessing the compatibility of these risks with the management of the Company in line with the strategic goals set;
- assessing, at least annually, the adequacy of the internal control and risk management system in respect of the nature of the Company and its risk profile, in addition to its effectiveness;
- approving, at least annually, the work plans prepared by the head of the Internal Audit department, in consultation with the Board of Statutory Auditors and the Director responsible for the internal control and risk management system;
- describing, in the corporate governance report, the main characteristics of the internal control and risk management system, providing an assessment of the adequacy of such system;
- assessing, in consultation with the Board of Statutory Auditors, the outcome of the audit carried out by the independent auditors, as contained in any letter of recommendations and in the report on key issues arising from the audit.

The Board of Directors has also requested the Internal Audit Committee to express its opinion on the proposals submitted by the Director responsible for the internal control and risk management system regarding:

- the appointment and removal of the Head of Internal Audit;
- the adequacy of the resources allocated to the Head of Internal Audit with respect to their responsibilities;
- the consistency of the related remuneration with the Company's policies.

The Internal Audit Committee is also responsible for:

- assessing, together with the Manager responsible for financial reporting and in consultation with the independent auditors and the Board of Statutory Auditors, the correct use of accounting standards, including by subsidiaries for the purposes of preparing the consolidated financial statements;
- expressing opinions on specific aspects regarding identification the principal business risks;

- examining the periodic reports on the assessment of the internal control and risk management system and on risk of particular significance prepared by the Internal Audit department;
- monitoring the independence, adequacy, effectiveness and efficiency of the Internal Audit department;
- requesting the Internal Audit department to carry out checks on specific areas of operation, at the same time informing the Chairman of the Board of Statutory Auditors;
- reporting to the Board, at least every six months, at the time of approval of the annual and interim financial statements, on the activities carried out and on the adequacy of the internal control and risk management system;
- supporting, on the base of an adequate monitoring activity, the evaluations and the decisions of the Board with the reference to the management of risks potentially due to adverse events known by the Board.

The Chairman or another member of the Board of Statutory Auditors takes part in meetings of the Internal Audit Committee.

The members of the Internal Audit Committee may have access, either directly or through executive Directors, to any information and departments they deem necessary in order to carry out their duties, and they may also make use of external consultants.

In accordance with the *best practices* mentioned above, the design, the implementation, the monitoring and the updating of the System during the periods are ensured by the governance structure and by the audit methodologies used by the Company, also inspired to the Company Guide Lines.

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

### **INTRODUCTION**

The Acotel Group (the “Company”) is committed to fostering and regularly revising an adequate internal control and risk management system, represented by a series of rules, procedures and organisational structures that aim to enable the Company to operate in line with the objectives set by the Board of Directors, including via the identification, measurement, management and monitoring of the principal risks to which the Company is exposed.

The risk management and internal control system is based on the CoSO Framework (published by the Committee of Sponsoring Organizations of the Treadway Commission). This provides internationally recognised best practices for the analysis, implementation and assessment of the risk management and internal control system.

The financial reporting process is a relevant part of the above internal control system aimed to ensure the truthfulness, accuracy, reliability and timeliness of financing reporting, in accordance with the applicable laws and regulations listed below:

- the CONSOB’s Regulations for Issuers;
- the Instructions accompanying the Market Rules published by Borsa Italiana;
- the ANDAF Position Papers: “The Manager responsible for financial reporting” and “Guidelines for the preparation of regulations governing the activities of the Manager responsible for financial reporting”;
- Confindustria guidelines for the activities of the Manager responsible for financial reporting, pursuant to art.154-*bis* of the CFA;
- Assonime Circular 44/2009, “The Manager responsible for financial reporting in the internal control system”;
- the CoSO Report of the Committee of Sponsoring Organizations of the Treadway Commission;
- the international accounting standards published by the International Accounting Standards Board (IASB);
- the international auditing standards published by the International Federation of Accountants (IFAC);
- the Corporate Governance Code, as amended by the Corporate Governance Committee for listed companies on 5 December 2011.

### **Description of the main characteristics of the existing risk management and internal control system in respect of the financial reporting process**

In compliance with art. 154-*bis* of the CFA, the Company has appointed a “Manager responsible for financial reporting” as part of its Corporate Governance system.

In order to manage risk and internal controls relating to financial reporting, the Manager responsible for financial reporting has drawn up an Administrative and Accounting

Control Model, *Regulations for the Manager responsible for financial reporting* (the “Model”), approved by the Company’s Board of Directors on 28 March 2008, and revised, again by Board of Directors’ resolution, on 14 March 2014. This Model defines the methodology adopted and the roles and responsibilities involved in the definition, implementation, monitoring and revision over time of the series of administrative and accounting procedures, and in the assessment of their adequacy and efficacy.

The Model consists of the following phases:

- administrative and accounting risk assessment;
- identification of controls and revision of administrative and accounting procedures;
- periodic assessment of the administrative and accounting procedures and the controls they contain.

### **Phase 1: Administrative and accounting risk assessment**

The administrative and accounting risk assessment represents the process of identifying the risks linked to financial reporting and is conducted at least once a year.

The purpose of the process is to identify the series of objectives that the system aims to achieve in order to ensure that the Company’s financial reporting is true and fair.

This is achieved by ensuring that financial statement assertions are respected (existence and occurrence of events, completeness, measurement and recognition, rights and obligations, presentation and reporting) and other control objectives (such as, for example, the segregation of duties and responsibilities, the documentation and traceability of transactions, respect for limits on authority, etc.).

Risk assessment focuses on areas of the financial statements that could potentially have the greatest impact on financial reporting.

The administrative and accounting risk assessment process, coordinated by the Manager responsible for financial reporting, with the assistance of the Internal Audit department, takes place every six months, and has two stages:

- revision of the scope of application (Scoping), being the process used to identify the companies and processes relevant for financial reporting purposes.  
The criterion adopted by the Company for scoping is linked to the materiality concept in terms of aspects that are both qualitative (knowledge of the Company’s operations and of the specific risk factors) and quantitative (analysing the weight of the various indicators with respect to certain measures, such as Total Consolidated Assets, Total Consolidated Revenue, Total Consolidated Liabilities and Pre-tax Profit – in absolute terms in the event of a loss);
- assessment of the overall adequacy of the Administrative and Accounting Control Model.

## **Phase 2: Identification of controls and revision of administrative and accounting procedures**

Identification of the controls necessary to mitigate the risks identified during the scoping phase is carried out considering the control objectives associated with financial reporting. In particular, reference is made to the accounts, classified as material, with which the individual business processes are associated in order to identify the controls necessary to ensure achievement of the objectives of the internal control system for financial reporting.

The Manager responsible for financial reporting, with the assistance of the Internal Audit department, assesses, at least every six months, the design and implementation of the controls applied to administrative and accounting procedures, in terms of:

- *the match between the description of the controls and the evidence supporting the controls and the operational procedures carried out, the information systems used and the Company's organisational chart;*
- *correct identification of the people responsible for the process, the activities and the identified controls.*

The results of monitoring activities are shared with the operational departments involved and the Manager responsible for financial reporting and the departments that provide him or her with support.

If the monitoring activities identify significant controls that are not covered, wholly or in part, by the series of administrative and accounting procedures, the various departments involved, in coordination with the Manager responsible for financial reporting, must amend the existing procedures.

## **Phase 3: Periodic assessment of administrative and accounting procedures and of the controls contained therein**

The periodic assessment of the system of Administrative and Accounting Controls is carried out at least every six months, in order to ensure adequate accounting information for use in preparing the annual separate and consolidated financial statements and the condensed interim consolidated financial statements.

The identified controls (both manual and automated) are then subject to an assessment of their adequacy and effective functionality through specific monitoring activities.

The tests carried out by the Manager responsible for financial reporting aim to assess:

- *the design and implementation of existing activities and controls, being the ability of the described control and its attributes to ensure adequate coverage of the identified risks and control objectives;*
- *the effective functionality of existing activities and controls, checking that the control has actually been conducted as described in the "control design", and that the*

*person responsible for the control has kept adequate trace and evidence of the control conducted.*

In conducting his checks, the Manager responsible for financial reporting assesses the need to involve the heads of the relevant departments and his opposite numbers at subsidiaries.

To complete the assessment process, every six months the Manager responsible for financial reporting requests the overseas subsidiaries to provide specific internal assurance of the completeness and truthfulness of the information contained in the reporting packages sent to the Parent Company for financial reporting purposes.

Every six months, the Manager responsible for financial reporting prepares a report summarising the results of the monitoring of the identified risks.

The assessment of controls may lead to the identification of compensatory controls, corrective action or improvement plans.

The results of these activities, shared with the Chief Executive Officer, are reported to the Board of Directors, the Board of Statutory Auditors, the Internal Audit Committee, the Supervisory Board set up pursuant to Law 231/01 and the independent auditors.

### **ROLES AND DEPARTMENTS INVOLVED**

The person in charge of the Risk Management and Internal Control System for financial reporting purposes is the Manager responsible for financial reporting, who, appointed by the Board of Directors, in consultation with the CEO, is responsible for designing, implementing and approving the Administrative and Accounting Control Model, and assessing its application, issuing attestations on the interim and annual separate and consolidated financial statements.

As the person responsible for putting in place adequate administrative and accounting procedures to be used in preparation of the separate and consolidated financial statements and all other financial announcements, and for providing adequate instructions to subsidiaries, deemed significant within the scope of preparation of the Group's consolidated financial statements, on how to correctly assess their own internal audit systems, the Manager responsible for financial reporting has responsibility for the internal controls related to financial reporting. In carrying out this role, the Manager is assisted by the Company's other executive Directors and by the Company's and the Group's management.

The Manager responsible for financial reporting reports to the Board of Directors, the Internal Audit Committee and – as regards issues falling within its responsibility - the Board of Statutory Auditors.

In carrying out his role, the Manager responsible for financial reporting:

- interacts with the Internal Audit department, who conduct independent checks on the functionality of the control system and support the Manager responsible for financial reporting in monitoring the System;
- coordinates the activities of the CFOs of the principal subsidiaries, who, together with the appointed bodies, are responsible for implementing appropriate internal control systems within their own companies, in order to monitor their administrative and accounting processes and assess their effectiveness over time, reporting the results to the Parent Company via an internal assurance process;
- exchanges information with the Internal Audit Committee and the Board of Directors, reporting on the activities carried out and the adequacy of the Internal Control System.

The Manager responsible for financial reporting reports to the Board of Statutory Auditors and the Supervisory Board on the adequacy and reliability of the administrative and accounting system.

In carrying out his duties the Manager responsible for financial reporting has the support of the Internal Audit department and/or appropriate external consultants.

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### **Overall assessment of the adequacy of the Internal Control System**

Based on the information and evidence gathered by the Manager responsible for financial reporting, with the support of the Internal Audit department, by the Head of Internal Control and by the Internal Audit Committee, the Board of Directors believes that the existing Internal Control System is, in general, capable of ensuring, with reasonable certainty, achievement of the Company's objectives.

In that it refers to the Internal Control System as a whole, the assessment is subject to the limits inherent in the system itself. Whilst well conceived and functional, the Internal Control System can only guarantee with "reasonable certainty" achievement of the Company's objectives.

## **11.1. DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The role of Director responsible for the internal control and risk management system has been assigned to Giovanni Galoppi, whose is responsible for:

- overseeing identification of the main business risks, taking account of the nature of the activities of the Issuer and its subsidiaries, and report on such risks to the Board of Directors;
- implementing the guidelines drawn up by the Board of Directors, proceeding to design, implementation and management of the internal control and risk management system, verifying its adequacy, effectiveness and efficiency on an

ongoing basis, and modifying the system in response to changes in the operating environment and the legislative and regulatory context;

- reporting to the Internal Audit Committee and the Board of Directors on problems and critical issues identified as a result of his activities.

Mr Galoppi, as a member of both the Supervisory Board and as a result of regular consultations with the Internal Audit Committee and the Board of Statutory Auditors, to whom he provides assistance in conducting their controls, and with the independent auditors, ensures the necessary coordination between the Board of Directors and the various bodies tasked with conducting controls.

The above Director has every opportunity to access the departments he deems it is necessary to involve in his activities, and to request the Internal Audit department to conduct checks on specific areas of operation and on compliance with internal rules and procedures in conducting business processes. The Director is also aware of the need to promptly inform the Board of Directors regarding any problems or critical issues brought to his attention.

### **11.2. HEAD OF INTERNAL AUDIT**

Giovanni Galoppi has been given responsibility for heading the Internal Audit department and, as such, he is responsible for:

- assuring that the internal control and risk management system is fit for purpose by implementing an audit plan approved by the Board of Directors, based on a structured process of analysis and prioritisation of the principal risks;
- preparing periodic reports containing adequate information on his activities, risk management processes, and compliance with the plans drawn up in order to contain risks and on the assessment of the appropriateness of the internal control and risk management system;
- submitting the reports prepared to the chairmen of the Board of Statutory Auditors, the Internal Audit Committee and the Board of Directors;
- assuring, within the scope of the Audit Plan, the reliability of information systems, including the accounting systems that play a major role in supporting business processes.

The Head of Internal Audit is not responsible for any operating activities and reports directly to the Board of Directors.

### **11.3. ORGANISATIONAL MODEL pursuant to Legislative Decree 231/2001**

On 28 March 2008 the Company's Board of Directors adopted an organisational, management and control model pursuant to Legislative Decree 231/01 (the "Model"). This Model, described in the document called "Organisational, Management and Control Model", has repeatedly been revised to keep pace with changes in legislation: the current

version was approved by the Company's Board of Directors on 13 March 2015, together with a series of attachments listed below, which form an integral part of the Model, governing its key components:

- *List of Crimes;*
- *List of Procedures;*
- *Code of Ethics;*
- *Protocols.*

In particular, the List of Crimes identifies the following offences for which the Company may at present be liable:

- damage to public property;
- fraud involving public funding;
- electronic crimes and illegal processing of data;
- crimes against the Public Administration;
- crimes against public trust;
- corporate crimes;
- terrorist acts or the subversion of democracy;
- female genital mutilation;
- crimes against the person;
- market abuse;
- crimes committed in violation of accident prevention and health and safety at work legislation;
- the handling, laundering and use of stolen money, goods or property and self-money-laundering;
- cross-border crimes.

The list of procedures shows the procedures falling within the scope of the Model and which are, therefore, monitored by the Supervisory Board and subject to application of the Disciplinary System in the event of violation.

During 2016, the Internal Audit department supported the Manager responsible for financial reporting in carrying out his monitoring and periodic control activities in order to issue the report required by law 262/05.

The Code of Ethics contains the principles and rules of conduct applicable to the Company's employees and anyone acting on the Company's behalf or who have business dealings with it. Compliance with the Code of Ethics is required by specific contractual conditions included in contracts governing relations between the parties.

The Disciplinary System describes the sanctions, the method for their application and the process for investigating violations of the rules contained in the Model by the various persons acting on behalf of the Company.

The Regulations of the Supervisory Board define the duties and powers of the Supervisory Board, the procedure for appointing its members, the related requirements and the method of revocation, and the procedure for calling meetings and for deliberation.

At its meeting of 14 March 2014, the Board of Directors, in implementation of the provisions of Legislative Decree 231/2001 and the guidelines established by Confindustria (the Confederation of Italian Industry), and in compliance with the requirements of independence, professionalism and continuity of action, elected ACOTEL GROUP SpA's new Supervisory Board. The Board also confirmed that this is a collegiate body with three members, based on the fact that the majority of entities has opted for such a form and in view of the vast number of responsibilities assigned to it.

#### **11.4. INDEPENDENT AUDITORS**

The auditing firm appointed to audit Acotel Group SpA's consolidated and separate financial statements is EY SpA, which was appointed by the General Meeting of 24 April 2012 for the nine financial years from 2012 to 2020.

#### **11.5. MANAGER RESPONSIBLE FOR FINANCIAL REPORTING**

At its meeting of 14 May 2012, the Board of Directors confirmed Luca De Rita's appointment as the Manager responsible for Acotel Group SpA's financial reporting.

The Articles of Association in force require the manager to have long-term experience in administration, finance and control and to meet the integrity requirements for Directors provided for by law.

As he is also Acotel Group SpA's CFO, the Manager responsible for financial reporting has sufficient powers to carry out his assigned tasks.

#### **11.6. COORDINATION OF PERSONS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

Coordination of the various persons involved in the internal control and risk management system is achieved by joint participation in meetings, where each person reports on their activities and future activities are coordinated. This is done to maximise the efficiency of the internal control and risk management system and reduce any overlaps.

#### **12. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS**

In application of the provisions of art. 2391-*bis* of the Italian Civil Code, the recommendations in art. 9.C.1 of the Corporate Governance Code for listed companies,

and the CONSOB regulations on related party transactions approved with Resolution 17221 of 12 March 2010 (the “**CONSOB Regulations**”), on 1 December 2010 the Board of Directors of Acotel Group SpA adopted a specific procedure for the approval and execution of transactions entered into by Acotel Group SpA, or its subsidiaries, with related parties.

The Procedure for Related Party Transactions, in effect from 1 January 2011, is available for inspection on the Company’s website in the “Investor Relations” section at [http://www.acotel.com/investor\\_report.php?report=3](http://www.acotel.com/investor_report.php?report=3).

The Directors are aware that they are included among the related parties specifically identified by the above procedure and whenever they have, on their own behalf or on behalf of third parties, an interest, even only potential or indirect, in transactions of any type entered into by the Company, or the Group, they must promptly and fully inform the Board of the existence of the interest and the related circumstances.

### **13. ELECTION OF STATUTORY AUDITORS**

The procedure for the election of Statutory Auditors is described in articles 25 and 26 of the Articles of Association, the latter in its recently amended version after compliance with the provisions of Law 120 of 12 July 2011 regarding gender quotas. The amended Articles were approved by the General Meeting held on 24 April 2014. This article establishes the procedure for electing Statutory Auditors by slate vote.

“SECTION V  
Board of Statutory Auditors  
Article 26

...  
*Statutory Auditors shall be elected on the basis of lists submitted by shareholders, on which candidates must be listed in consecutive numerical order. The lists shall consist of two sections: one for candidates for the position of standing Auditor, the other for candidates for the position of alternate Auditor.*

*Lists containing a number of candidates equal to or higher than 3 (three), taking into account both sections, must, in the section for the position for standing Auditor, consist of a number of candidates such as to ensure that the composition of the Board of Statutory Auditors complies with the legal and regulatory requirements, from time to time in force, regarding gender quotas (male and female). Should the application of gender quotas, as required by law, not result in a whole number of Board members, this number shall be rounded up to the nearest whole number.*

*Only shareholders who hold, either singly or jointly with other shareholders, voting shares representing at least 2.5% (two point five per cent) of the issued share capital carrying the right to vote shall have the right to submit lists, or, in the event of this percentage no longer being allowed by changes in the relevant legislation or regulations, the maximum permitted number shall apply.*

*No shareholder, or group of shareholders, may submit more than one list, including by proxy or trust company, and they cannot vote for more than one list.*

*Each candidate may be included in one list alone on pain of ineligibility.*

*Candidates who already hold positions as Statutory Auditors in a further five listed companies, excluding subsidiaries, or in a number of companies that exceeds the maximum limit established by law or the related regulations, or who do not meet the integrity and professional requirements established by the applicable legislation, cannot be included in the lists.*

*The lists must be deposited at the Company’s registered office at least twenty-five days before the date of the General Meeting and published in the forms provided for by the legislation and regulations in force at least twenty-one days before the General Meeting.*

*Each shareholder who singly or jointly submits a list must deposit the certificate issued by an intermediary, providing proof of their right to submit such a list, at the Company’s registered office at the same time as submitting the list or within the deadline for publication of the lists by the Company, pursuant to the regulations in force. The shareholder must also include a statement providing a personal warranty that*

there is no connection with the other lists submitted, as required by the applicable regulations. Proof of deposit must be provided in the form of a receipt issued by the entity appointed by the Company for this purpose.

Within the above term, each list must be accompanied by a statement from each candidate declaring that they accept their candidacy and providing a personal warranty that there is no fact or deed that could give rise to their disqualification and that they meet the legal requirements for holding such office.

Each candidate's declaration must be accompanied by a curriculum vitae, containing their personal and professional details and a list of directorships and positions as statutory auditor held in other companies.

Any list that does not satisfy these requirements shall be deemed invalid.

Provided that the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members) have been complied with, the procedure for electing Statutory Auditors is as follows:

- two standing Auditors and one alternate Auditor shall be drawn from the list that obtains the highest number of votes at General Meeting, based on the consecutive numerical order in which they are listed in the two sections of the list;

- the remaining standing Auditor and alternate Auditor shall be drawn from the list that obtains the second highest number of votes at General Meeting, based on the consecutive numerical order in which they are listed in the two sections of the list.

The Chairman of the Board of Statutory Auditors is drawn from the list of candidates that obtains the second highest number of votes.

If, on completion of the election, the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) have not been complied with (including after rounding up to the nearest whole number should the application of gender quotas, as required by law, not result in a whole number of Board members), the candidate elected from the most represented gender ranked last in the list obtaining the majority of votes shall be replaced by the next ranked candidate, taken from the same list, belonging to the other gender.

Should only one list be submitted, the standing and alternate Auditors shall be drawn from that list, subject to prior approval of the General Meeting: the Chairman of the Board of Statutory Auditors shall be the first candidate on this sole list.

Should a Statutory Auditor no longer meet the requirements of the law and the Articles of Association, the Auditor's appointment shall be terminated.

In the event of replacement of a Statutory Auditor, the alternate Auditor from the same list as the Auditor being replaced shall take over, or, failing this, the other alternate Auditor, in any event provided that the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female) are complied with.

If the Board of Statutory Auditors cannot be reconstituted following the above procedure, the Board of Directors shall call an urgent General Meeting to adopt the necessary resolutions.

The General Meeting called to re-elect the Board of Statutory Auditors pursuant to the law shall proceed in such a way as to respect the above principle of minority representation, and comply with the legal and regulatory requirements, from time to time in force, concerning gender quotas (male and female)."

The lists of candidates for the position of Statutory Auditor, accompanied by the candidates' personal and professional details, are published on the Company's website in the "Investor relations" section in the days preceding the General Meeting called to elect the Board of Statutory Auditors.

The General Meeting of 24 April 2014 voted on an amendment to the Articles of Association made necessary, or in any event desirable, by the entry into effect of Law 120 of 12 July 2011, which has amended the Consolidated Finance Act (articles 147-ter and 148). The amendment requires the introduction of a quota for the least represented gender on the various corporate bodies, equal to one third of the Directors or Statutory Auditors elected.

The new election procedure was applied for the first time during re-election of the Company's Board of Directors and Board of Statutory Auditors by the Annual General Meeting held on 24 April 2015.

#### **14. COMPOSITION AND FUNCTIONS OF THE BOARD OF STATUTORY AUDITORS**

Acotel Group SpA's Board of Statutory Auditors was elected by the Annual General Meeting held at the registered office in Rome on 24 April 2015. It consists of the following members:

Sandro Lucidi;  
Monica Rispoli;  
Antonio Mastrangelo.

During the above General Meeting, Sandro Lucidi was elected Chairman of Acotel Group SpA's Board of Statutory Auditors.

All Acotel Group SpA's Statutory Auditors, who will remain in office until the Annual General Meeting called to approve the financial statements for the year ended 31 December 2017, were drawn from the single list submitted by the shareholder, CLAMA Srl, which was voted for by all the shareholders present at the General Meeting, representing 57.384% of the voting shares.

Attendance of the Statutory Auditors at the seven the Board of Directors' meetings held in 2016 has been full, as well as the seven audits carried out by the Board during the period. The average duration of the Board of Statutory Auditors' meetings held during the year was 137.1 minutes.

During 2017, prior to the date of preparation of this Report, the Company's Board of Statutory Auditors held one meeting. There have been no changes in its composition.

At its meeting of 29 April 2015, the first following their election, on 10 March 2016 and on 16 March 2017, the Board of Statutory Auditors proceeded to verify that its members satisfy and continue to satisfy the independence requirements provided for in the Corporate Governance Code, verifying the absence of all the instances mentioned in letters a) to h) of application criterion 3.C.1. of the Code, with the exception of, with regard to Antonio Mastrangelo, the instance mentioned in letter e) regarding positions held for more than nine years out of the last twelve.

In part based on the interpretation applied when assessing the independence of the independent Directors, the above exception was deemed to be irrelevant for, among other things, the following reasons: that compliance with the provisions of the Code is, in accordance with the Code itself, voluntary; that the absence of the instances listed in the application criterion 3.C.1. is not binding for the Board of Statutory Auditors, which has the option of adopting additional or even alternative criteria, giving investors an appropriate and reasoned explanation; that the assessment of independence must be carried out more with regard to substance than to form; that the authority and independence of Antonio Mastrangelo and Umberto Previti Flesca do not appear in any way compromised by the fact that they have been Statutory Auditors at the Company over the last nine years.

Whilst the Company has not organised specific initiatives with the aim of providing the Statutory Auditors with adequate knowledge of the sector in which the Issuer operates, of the Company's operations and their evolution, or on the related regulatory environment, management deems that the members of Acotel Group SpA's Board of Statutory Auditors are sufficiently prepared for their roles, if for no other reason than because of their areas of specific expertise. During Board meetings, and the checks conducted by the Statutory Auditors, the Company's Chairman provides a thoroughgoing explanation of the sector in which the Company operates, the Company's operations and their evolution, and of the regulatory environment.

The compensations assigned to the Statutory Auditors are defined at the moment of their appointment by the Shareholder's Meeting and are proportioned to the specific dimensional characteristics of the Acotel Group S.p.A..

The Statutory Auditors are aware that they must act independently, including in respect of the shareholder by whom they were elected and that whenever they have, on their own behalf or on behalf of third parties, an interest in a transaction carried out by the Issuer they must promptly and fully inform the other Statutory Auditors and the Chairman of the Board of Directors regarding the nature, terms, origin and scope of their interest.

The Board of Statutory Auditors monitors the independence of the independent auditors, verifying both compliance with the related regulations, and the nature and entity of the services, other than the audit, provided to Group companies by the independent auditors and their associates.

The Statutory Auditors work with the Internal Audit department and the Internal Audit Committee, with whom they engage in prompt exchanges of opinion, in addition to direct meetings whenever the need arises, including during audits carried out by the Board of Statutory Auditors or via the attendance of a Statutory Auditor at meetings of the above Committee.

## **15. INVESTOR RELATIONS**

In order to ensure quick and easy access to key shareholder information, the Company has created an "Investor relations" section on its website, [www.acotel.com](http://www.acotel.com), where all the information held to be essential in order for shareholders to consciously exercise their rights is promptly made available, and corporate reports are readily available for inspection.

The Company has an Investor Relations manager, who reports directly to the Chairman and Chief Executive Officer, Claudio Carnevale. The Investor Relations manager is responsible for managing relations with shareholders, institutional investors, the financial press and other stakeholders.

The Company participates in and organises meetings with analysts, investors and members of the press. The meetings are used to present current and future operating

strategies and the financial results. All requests for one-to-one meetings from representatives of institutional investors are generally satisfied.

## **16. GENERAL MEETINGS**

The Articles of Association governing the conduct of General Meetings of Acotel Group SpA's shareholders are numbers 9 to 14, which are reproduced below in their amended version after compliance with the provisions of Legislative Decree 27 of 27 January 2010, approved by the General Meeting held on 22 April 2011.

### *"SECTION III General Meetings Article 9*

*General Meetings are called pursuant to the law by the Board of Directors at the registered office or at another location, provided that it is in Italy or another European Union state.*

*Ordinary General Meetings shall be called at least once a year, within 120 days of the end of the financial year, or within 180 days in cases provided for by art. 2364 of the Italian Civil Code.*

*The Directors must, without delay, call a General Meeting when requested to do so by shareholders representing at least a twentieth of the share capital and details of the agenda are included in the request.*

*It is not possible for shareholders to request that a General Meeting be called to discuss matters that are, by law, dealt with at the proposal of the Directors or on the basis of a project or report prepared by them.*

*General Meetings shall be called, in both ordinary and extraordinary session, every time the Board of Directors deems it necessary and when provided for by law.*

*Notices of General Meetings shall be published, in accordance with the procedures and terms established by the legislation in force, on the Company's website and in the forms provided for by CONSOB regulations. The Notice may indicate another date for the Meeting to be held in second call.*

*Without prejudice to the option of holding a General Meeting in single call, if the date for the meeting in second or subsequent call is not indicated in the notice, the General Meeting may be reconvened within 30 (thirty) days. In this case, the term for publication of the notice will be reduced in accordance with the provisions of art. 126, paragraph two of legislative Decree 58/1998.*

*Shareholders have the right to view all the documents deposited at the registered office for General Meetings previously called and to obtain a copy at their own expense.*

### *Article 10*

*Ordinary General Meetings are normally held in single call.*

*When it deems it appropriate, the Board of Directors may organise a General Meeting in second call, when the Meeting held in first call has failed to meet the quorum required by law and these Articles of Association.*

### *Article 11*

*Ordinary General Meetings held in single call are deemed to meet the quorum whatever the proportion of the share capital represented, and resolutions shall be passed by an absolute majority of those present.*

*Extraordinary General Meetings shall, in turn, be deemed to meet the quorum when at least a fifth of the share capital is represented, whilst resolutions shall be passed with the approval of shareholders representing at least two-thirds of the share capital represented at the Meeting.*

*In the event of a General Meeting being held in second call, the rules governing quorums and voting provided by law shall apply in both first and second call.*

### *Article 12*

*A General Meeting, validly held under the law, represents all shareholders and the resolutions passed in accordance with the law and these Articles of Association shall be binding for all shareholders whether not in attendance or dissenting.*

### *Article 13*

*Proof of the right to speak at General Meetings and of the right to vote shall be provided in the form of notification, within the terms provided for by law, to be issued by the intermediary based on their accounting records on behalf of the holders of voting rights.*

*The holders of voting rights may appoint proxies by completing a proxy form in accordance with the procedures and terms established by law. The proxy may notified by certified electronic mail, or in accordance with the procedure set down in the specific regulations issued by the Ministry of Justice, in accordance with the procedures indicated in the notice of the General Meeting.*

*The Chairman of the General Meeting shall ascertain the validity of each form of proxy and of the right of attendance, in general.*

*The Company has the option of designating, for each General Meeting, an entity that shareholders may appoint, in accordance with the procedures provided for by art.135-undecies of Legislative Decree 58/1998, as their proxy with voting instructions.*

*If the Company should elect to exercise this option, shareholders will be notified in the notice of the General Meeting.*

#### *Article 14*

*General Meetings shall be presided over by the Chairman of the Board of Directors and, in his absence, by another person elected by the General Meeting itself.*

*The Chairman of the General Meeting, if necessary assisted by specially appointed persons, shall verify that the General Meeting meets the required quorum, ascertain the identity and right to attend of those present, chair the discussion, establish the order of discussion and the voting procedures, bring the Meeting to order, and check the results of the votes. The outcome of these checks must be recorded in the minutes.*

*The Chairman shall be assisted by a Secretary elected on each occasion by the General Meeting, at the non-binding suggestion of the Chairman.*

*The election of a Secretary is not required when the minutes of the General Meeting are prepared by a Notary”.*

The Board of Directors takes steps to:

- facilitate the participation of shareholders at General Meetings, programming them in locations, on dates and at times that will make it easy to attend;
- reduce the restrictions and requirements that make it difficult for shareholders to speak during a General Meeting and exercise their voting rights;
- be physically present during General Meetings so that shareholders can ask direct questions about their activities, above all Directors with executive or operational roles;
- comply with the Company’s obligation to not disclose price sensitive information to shareholders, without a concomitant market disclosure.

At the Annual General Meeting of 24 April 2002, shareholders approved Acotel Group SpA’s General Meeting Regulations, which are also available on the Company’s website (<http://www.acotel.com/upload/1269277769.pdf>). The Regulations aim to ensure the orderly and efficient conduct of the Company’s Ordinary and Extraordinary General Meetings and guarantee the right of all shareholders to speak on items on the agenda.

The above Regulations, which are not contained in an appendix to the Articles of Association, specify, among other things, the maximum duration of each speech, their order, the method of voting and the Chairman’s powers in bringing the meeting to order.

The Board of Directors reports to the General Meeting on the activities carried out and planned, and publishes documentation relating to each item on the agenda on the Company’s website, supplying, if necessary during the General Meeting, information requested by shareholders, so that they can vote on the related resolutions in full possession of the relevant facts.

The average attendance of the Directors to the two Shareholding’s Meetings held during the 2016 was 50%.

Nel corso dell’esercizio 2016 l’andamento delle quotazioni del titolo ACOTEL si è mantenuto stabile e pertanto il Consiglio non ha valutato opportuno proporre all’Assemblea modifiche dello Statuto relative alle percentuali stabilite per l’esercizio delle azioni e delle prerogative poste a tutela delle minoranze.

During 2016 the trend of the quotations of ACOTEL's title has maintained stable therefore the Board decided not to propose to the General Meeting to make amendments to the Articles of Association regarding the percentages established in respect of the exercise of rights and the prerogatives designed to safeguard minorities.

### **17. FURTHER ASPECTS OF CORPORATE GOVERNANCE** **(pursuant to art. 123-bis, paragraph 2, letter a) of the CFA)**

There are not further aspects of corporate governance to describe in this Report.

### **18. SUBSEQUENT EVENTS**

There have been no significant changes to the structure of Acotel Group SpA's corporate governance between 31 December 2016 and the date of preparation of this Report.

## TABLES

**TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE**

<i><b>STRUCTURE OF THE SHARE CAPITAL</b></i>				
	No. of shares	% of share capital	Listed (indicate markets) / Unlisted	Rights and obligations
Ordinary shares	4,170,000	100%	FTSE Italia STAR	-
Multiple voting shares	-	-	-	-
Shares with limited voting rights	-	-	-	-
Non-voting shares	-	-	-	-

<i><b>OTHER FINANCIAL INSTRUMENTS</b></i> <i><b>(embodying the right to subscribe to new shares)</b></i>				
	Listed (indicate markets) / Unlisted	No. of instruments in circulation	Category of shares allocated for conversion/exercise	No. of shares allocated for conversion/exercise
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

<b>MAJOR SHAREHOLDINGS</b>			
Reporting entity	Direct shareholder	% interest in ordinary share capital	% of voting shares
<b>Clama Srl</b>	<b>Clama Srl</b>	<b>41.44%</b>	<b>41.44%</b>
<b>Clama Srl.</b>	<b>Acotel Group SpA</b>	<b>1.35%</b>	<b>1.35%</b>
<b>Claudio Carnevale</b>	<b>Macla Srl</b>	<b>15.95%</b>	<b>15.95%</b>
<b>Heritage Trust</b>	<b>Ellepif Ltd</b>	<b>7.51%</b>	<b>7.51%</b>

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

Board of Directors													Internal Audit Committee		Remuneration Committee		Nominations Committee if established		Executive Committee if established		Other Committee if established	
Position	Member	Date of birth	Date first elected	In office from	In office until	List (M/m) *	Exec.	Non-exec.	Indep. under Code	Indep. under CFA	(%) **	No. of other positions ***	****	**	****	**	****	**	****	**	****	**
<b>Chairman and CEO</b>	Carnevale Claudio	1950	2000	24/4/15	30/4/18	M	X				100	0										
<b>Lead Independent Director</b>	Ago Francesco	1951	2000	24/4/15	30/4/18	M		X	X	X	100	0	X	100	X	100						
<b>Director</b>	Argenziano Margherita	1951	2000	24/4/15	30/4/18	M	X				100	0										
<b>Director</b>	Rubens Esposito	1944	2015	24/4/15	30/4/18	M		X	X	X	87.5	0	X	100	X	100						
<b>Director</b>	Galoppi Giovanni	1956	2003	24/4/15	30/4/18	M	X				100	1										
-----DIRECTORS TERMINATED DURING THE REPORTING PERIOD -----																						
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Indicate the required quorum for the submission of lists for the latest election: 2.5%																						
<b>No. of meetings held during the reporting period:</b>								Board: 8			Audit Com.: 4			Remun. Com.: 2		Nomin. Com.: -		Exec. Com.: -		Other Com.: -		

**NOTES**

\* This column indicates M/m depending on whether the member was elected from the list submitted by the majority (M) or by the minority (m).

\*\* This column shows the percentage of Board of Directors' and Committee meetings attended by each Director (no. of attendances /no. of meetings held during the effective term of office of the interested party).

\*\*\*This column shows the number of positions as director or statutory auditor held in other Italian or overseas companies listed on regulated markets, referring to finance companies, banks, insurance companies or large corporations..

\*\*\*\*This column shows an "X" if the Director is a member of the Committee.

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

<i>Position</i>	<b>Member</b>	<b>Date of birth</b>	<b>Date first elected</b>	<b>In office from</b>	<b>In office until</b>	<b>List (M/m) *</b>	<b>Independence under Code</b>	<b>(%) **</b>	<b>Number of other positions ***</b>
<b>Chairman</b>	Lucidi Sandro	1955	2015	24/4/15	30/4/18	M	X	100	n/a
<b>Standing Auditor</b>	Mastrangelo Antonio	1955	2000	24/4/15	30/4/18	M	X	100	n/a
<b>Standing Auditor</b>	Rispoli Monica	1973	2015	24/4/15	30/4/18	M	X	100	n/a
<b>Alternate Auditor</b>	Perrotti Gabriele	1960	2003	24/4/15	30/4/18	M	X	--	--
<b>Alternate Auditor</b>	Donatelli Paola	1967	2015	24/4/15	30/4/18	M	X	--	--

-----**STATUTORY AUDITORS TERMINATED DURING THE REPORTING PERIOD**-----

-	-	-	-	-	-	-	-	-	-
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**Indicate the required quorum for the submission of lists for the latest election : 2.5%**

**Number of meetings held during the reporting period: 7**

**NOTES**

\* This column indicates M/m depending on whether the member was elected from the list submitted by the majority (M) or by the minority (m).

\*\* This column shows the percentage of Board of Statutory Auditors' meetings attended by each member (no. of attendances /no. of meetings held during the effective term of office of the interested party ).

\*\*\* This column shows the number of positions as director or statutory auditor held, as required by art. 148 *bis* of the CFA. The full list of positions is attached, pursuant to art. 144-*quinquiesdecies* of the CONSOB Regulations for Issuers, to the report prepared by the Statutory Auditors pursuant to article 153, paragraph 1 of the CFA.