*Disclaimer: this is an English courtesy translation of the original documentation prepared in Italian language.*

Milan, 22 December 2020

*To the Chairs of the Board of Directors of Italian listed companies*
*Cc: to the CEOs of Italian listed companies*
*Cc: to the Chairmen of the Controlling Bodies of Italian listed companies*

Dear Chair,

I am writing to you as Chair of the Italian Corporate Governance Committee (hereinafter the "Committee") promoted by Abi, Ania, Assogestioni, Assonime, Borsa Italiana and Confindustria. The purpose of the Committee is to promote good corporate governance in the financial community by issuing and updating the Corporate Governance Code (hereinafter the "Code") and any other institutional, scientific, informational or promotional initiative that can strengthen its credibility.

In particular, *guiding principle* VII of the Code assigns the Committee the task of monitoring the status of its application by Italian companies with shares listed on the regulated market (hereinafter "issuers") that declare to adopt it. In accordance with the aforementioned *guiding principle*, the Committee approves an Annual Report on the application of the Code (hereinafter the "Report"), which this year is in its eighth edition.

Since the publication of its first Report in 2013, the Committee has matured an awareness of the importance of adequate monitoring to ensure the effectiveness and credibility of the governance system. This awareness was subsequently strengthened in December 2015 with the decision to send a letter to all issuers highlighting the monitoring carried out and emphasising the main critical issues encountered.

With this letter, and the Report attached, we intend to follow up on this practice to encourage an increasingly conscious application of the Code by the issuers who adopt it and, more generally, to promote the evolution of corporate governance in all Italian listed companies according to the principles of the Code, regardless of their formal adoption of it.

The adoption of the Code represents for the issuers a commitment to the market to ensure the appropriate quality of governance practices and to provide adequate disclosure; a commitment that is also recognised by law in the Consolidated Law on Finance, which imposes on issuers specific disclosure obligations on the subject and attributes to the controlling body (*organo di controllo*) a specific duty to supervise the methods of concrete implementation of the corporate governance rules provided for by the governance codes which the company declares to adopt.[1]

The overall picture therefore outlines a clear expectation for issuers to commit themselves to giving credibility to their adoption of the Code in a dynamic and evolving vision of the relationship between firms and the market.

Precisely the need to ensure constant consistency between the Code's recommendations and the evolution of the markets and investor expectations led the Committee to carry out a thorough review of the Code which, safeguarding the underlying principles that have inspired it since its first edition of 1999, had the primary objective of enhancing the role of self-regulation in guiding the governance choices of listed companies and above all in favouring their evolution towards a model increasingly oriented towards the creation of long-term value for the benefit of shareholders, considering the interests of all other relevant stakeholders.

The Code's new edition, approved by the Committee on 31 January 2020[2], is characterised by:

- a rationalised and simplified structure, also through a rearrangement of existing *principles* and *recommendations*;

- a greater pervasiveness of the issue of the sustainability of business activity, integrated into its strategic perspectives;

- the strengthening of some existing best practices and the incorporation of those practices which are currently being developed;

- a greater proportionality of the Code's recommendations in accordance with the firms' size characteristics and ownership structures, so that the needs and peculiarities of firms with a strong controlling shareholder (many of which are family businesses) and of smaller size are adequately taken into consideration.

The Committee has deemed it appropriate to ensure an adequate period of adaptation by firms to the Code's new edition, providing that its application will start from the 2021 financial year, with information to be included in the corporate governance reports to be published in 2022. In any case, the Committee believes it is useful for company practices to promptly adapt to the

[1] Art. 149, paragraph 1, lett. c-*bis*) Consolidated Law on Finance (d.lgs. 58/1998).
[2] See New Corporate Governance Code and the related Committee's press release.

inspiring principles of the Code’s new edition, especially in terms of sustainability, consolidating and strengthening the evolution that is already underway in this direction.

In order to facilitate firms in the application of the Code’s new edition, on 4th November 2020 the Committee also approved the first collection of clarifications, in the form of Q&A, which identify some general criteria for its application.[3]

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This letter and the Report therefore provide an overall picture of the current application of the current Code and represent a useful parameter for assessing the relative degree of compliance by your company.

I therefore invite you to submit the **"Committee Recommendations for 2021"**, reported at the end of this letter, for examination by the Board and the competent committees, hoping that they will be the subject of a specific Board debate and careful consideration, also during the board self-assessment, in order to identify any possible changes in governance or to fill any gaps in the application or in the explanations provided. I also invite you to submit the same recommendations to the controlling body, which is responsible for overseeing the methods of concrete implementation of the Code’s recommendations.

The Committee also deems it useful that the considerations made concerning the recommendations of the Committee itself and any initiatives planned or undertaken in this regard be reported, with adequate evidence, in the next corporate governance report to take into account the issuer’s constant attention to the quality of its governance. The Committee has entrusted its Technical Secretariat, which is available for any clarification or further information (segretario@comitato-cg.org), to examine the considerations made known by the issuers in order to ensure timely and complete monitoring of the evolution of the Code’s application practices with particular regard to the issues subject to specific recommendations.

Best regards,

Patrizia Grieco

*Encl: a.a.*

[3] See Q&A 2020 and the related Committee’s press release (in Italian only).

# The Committee's Recommendations for 2021

***The 2020 Report on the Code's application***

The Committee's Report provides an overview of the application of the Code's main recommendations, paying particular attention to those most relevant to the correct and effective functioning of the board of directors.[4]

At the end of 2019, 95% of Italian companies with shares listed on the MTA formally declared that they adopted the latest version of the Code.[5] The choice not to adopt it is limited to a few cases and is generally due to the small size of the company.

The analysis contained in the Report shows a good level of information offered by the corporate governance reports. Issuers generally describe their governance model clearly and analytically, both in the case of application of the Code's recommendations and in cases of their total or partial non-application.

For most of the Code's recommendations the degree of application is high. However, there are still some areas where, despite the repeated references contained in the Reports of previous years, the level of application of the recommendations is still low and the quality of the information provided regarding any departure is unsatisfactory. These areas are clearly identified in the Report and on them the Committee has formulated the specific recommendations highlighted below with the aim of encouraging the issuers towards a more substantial and transparent application of the Code.

***The effects of the recommendations sent in 2019***

In the Report published in December 2019, the Committee recommended that issuers evaluate, and if necessary improve, the concrete and substantial application of some best practices contained in the Code, and to consider the opportunity for a broader qualitative improvement, beyond the recommendations of the Code, in some areas of governance. The Report was sent to the Chairs and CEOs of all the issuers together with a letter in which the Chairman of the Committee invited the corporate bodies of these issuers to examine, also during the board self-assessment, the main areas for improvement that emerged from the Report and the specific recommendations indicated in the letter ("The Committee's Recommendations for 2020"),

[4] The Report is based on the collection and analysis of data carried out in the *Assonime-Emittenti Titoli Report on Corporate Governance in Italy* (currently being published, subsequently also only as "Assonime-Emittenti Titoli 2020").
[5] This is the Code's 2018 edition, taking into account the gradual entry into force of the recommendations on the diversity of composition of corporate bodies.

providing adequate disclosure on the initiatives undertaken in the subsequent corporate governance report. An invitation was also formulated to submit these recommendations, as far as it was concerned, also to the issuer's controlling body.

The Committee's Recommendations for 2020 identified four main areas for improvement relating to:

- the integration of the sustainability of the business activity in the definition of the strategies and the remuneration policy, also on the basis of a relevance analysis of the factors that can affect the generation of value in the long term;

- the guarantee of adequate management of information flows within the board of directors, ensuring that the confidentiality requirements of the information provided to the board do not compromise the completeness, usability and timeliness of the information;

- the correct application of the independence criteria defined by the Code, with particular regard to the possibility of limiting the non-application of these criteria to exceptional and adequately motivated cases on an individual basis, and of defining ex ante the quantitative and/or qualitative criteria to be used for the assessment of the significance of relationships;

- the verification that the amount of remuneration awarded to non-executive directors and members of the controlling body is adequate for the competence, professionalism and commitment required by their office.

From the corporate governance reports published in 2020, it emerges that 79% of the companies surveyed (steadily increasing compared to 75% in 2019 and 50% in 2018) promptly responded to the indications of the letter,[6] declaring that they used the indications of the Committee for the assessment of their degree of compliance with the Code. This information is found in about 81% of the companies that adopt the Code of which: about 33% declare that they are already in line with all or part of the Code's recommendations, while about 36% (an increase compared to 25% in 2019), in addition to declaring alignment with the Code, identified among the issues highlighted by the Committee one or more areas in their governance for possible improvement, indicating the initiatives they have initiated or intend to initiate for this purpose. In these cases, the companies have often indicated more than one area for improvement: in over two thirds of these cases, the companies identify one or more aspects relating to sustainability (competence of the board, internal board committees, remuneration

[6] These are 173 companies, representing 79% of the companies surveyed in the Assonime-Emittenti Titoli 2020 study. Considering the sample of the Committee Report that analyses the 209 companies that adopt the Corporate Governance Code, the percentage of companies that declared they considered the letter from the Committee Chairman rises to 83%.

linked to sustainability objectives), while the other aspects are equally distributed (approximately one third respectively to: the improvement of information flows to the board; the assessment of independence, with particular attention to the Code's new recommendation to define the qualitative and quantitative criteria for the assessment of the significance of the relationship between the independent director and the company; the remuneration of non-executive directors and members of the supervisory body, also with reference to the possible use of peers). In the remaining cases, the issuers limited themselves to mentioning the examination of the content of the letter in the Board without expressing any assessment or they postponed the examination of this letter to a Board meeting during the 2019 financial year (approximately 12%).

Even some companies that do not adopt the Code have declared that their board of directors has considered the indications of the letter indicated above (this happens in 3 cases out of 11 companies that do not adopt the Code), confirming the guideline value of the Committee's monitoring activities for all listed companies.

An in-depth examination[7] of the information provided in the corporate governance reports published in 2020 highlights some signs of improvement in the areas indicated above, however, they are accompanied by the persistence of widespread application weaknesses. The Committee therefore confirms the importance of issuers making further efforts to align their practices with the relevant recommendations, also in consideration of the strengthening of the recommendations relating to these aspects in the Code's new edition.

As for the first issue covered by the Committee's recommendations for 2020, the purpose was to stimulate greater integration of the ***sustainability*** of business activities in the definition of the strategies and the remuneration policy. In this case, the Committee did not dictate specific recommendations, but substantially anticipated the central issues of the Code's revision. To this end, considering the centrality of 'sustainable success' in the Code's new edition and taking into account that the latter is going to be applied during the 2021, the evaluation of the effects of this recommendation has mainly focused on examining the time horizon of the remuneration policies and on the parameters used in defining the variable components of executive directors. It emerged that a significant number of companies provide variable remuneration linked to long-term time horizons (about three quarters of the companies that adopted the Code, as in 2019). In defining the objectives to which the payment of variable remuneration is linked, just under half of the companies use at least one strategic performance parameter not linked to mere profitability ratios (a slight increase compared to 2019); this is a figure that is accompanied in most cases by the forecast of parameters linked to specific environmental or social objectives, the use of which has doubled compared to 2019. In the medium term, there is a tendency to increase the attention of companies towards the enhancement of strategic performance objectives in defining their remuneration policies, present in only one third of the listed

[7] See Corporate Governance Committee, 2020Annual Report, Part II, carried out on the basis of Assonime-Emittenti Titoli 2020.

companies in 2015, which very rarely included environmental and social sustainability parameters.

The adequacy of ***board information flows*** is still unsatisfactory in almost two thirds of the listed companies, in line with 2019. The critical issues identified concern the failure to indicate the deadlines for sending pre-meeting documentation (around a quarter of the companies, as in 2019) and/or the failure to indicate whether these terms were normally respected (40% of the companies compared to 45% in 2019), and/or the provision that these terms can be waived for confidentiality reasons (approximately one third of the companies, as in 2019). All three of these aspects have already been the subject of explicit recommendations by the Committee and the improvements appear modest.

With regard to the application of the ***independence criteria*** indicated by the Code, the 2020 data outline a situation that is gradually improving, confirming the positive evolution already recorded in 2019. If the general exception to one or more independence criteria recommended by the Code is stable (8% of companies), there is a slight decrease in companies that do not apply the independence criteria with reference to individual directors (from 17% in 2019 to 13% in 2020), although often the reasons justifying the qualification of a director as independent, even though not all the Code's criteria are met, are generic. More accentuated is the reduction of companies in which there are directors qualified as independent who do not seem to comply with all the Code's criteria (especially in relation to exceeding the nine-year mandate limit and the receipt of additional remuneration of a significant amount compared to the remuneration for office and for participation in committees), without any reasons being given (from 26% for 84 directors in 2019 to 15% for 56 directors in 2020). Finally, the disclosure of information regarding the quantitative and/or qualitative criteria used to assess the significance of relationships (from 7% in 2019 to 9% in 2020), the use of which is functional to the correct application of the independence criteria, is confirmed to be very rare, albeit slightly increasing.

The ***remuneration of non-executive directors and members of the controlling body*** shows a gradual trend towards a greater enhancement of the competence, professionalism and commitment required by their office. The fixed remuneration of non-executive directors grew on average in 2020 by almost 10% compared to 2019. This increase mainly concerned medium-sized companies and to a lesser extent small companies, where the problem of inadequate remuneration levels appears more acute. A similar, but more contained, trend is recorded for the evolution of the remuneration of the members of the controlling body, where in the last year there has been an increase of about 5% in average remuneration; an increase that appears to be concentrated mainly in medium-sized companies and to a lesser extent in small ones.

***The recommendations for 2021***

In light of the results of the Report for 2020 and the analysis of the behaviour of the issuers on the subjects highlighted in the related cover letter and considering that 2021 will represent the first year of application of the Code's new edition, the Committee has deemed it useful this year to reconsider the set of recommendations provided in the last four years, formulating some specific indications in the areas characterised by the persistence of significant elements of weakness, the overcoming of which appears functional also for the purpose of better applying the more innovative aspects of the Code's new edition.

The Committee therefore invites issuers to evaluate the effective application of the following recommendations, or to provide an adequate explanation of any departure.

On the issue of sustainability, taking into account the forthcoming application of the Code's new edition, the Committee invites the boards of directors to:

> **- integrate the sustainability of the business activity into the definition of strategies, of the internal supervisory and risk management system and of the remuneration policy, also on the basis of a relevance analysis of the factors that may affect long-term value generation.**

On the issue of **pre-board meeting information**, the Committee invites the boards of directors to:

> **- explicitly determine the prior-notice deadlines deemed appropriate for sending the pre-meeting documentation**;
>
> **- provide in the corporate governance report a clear indication of the prior-notice deadlines identified and their effective compliance;**
>
> **- not provide that these prior-notice deadlines can be waived for mere reasons of confidentiality.**

On the issue of the **application of the independence criteria**, the Committee invites the boards of directors to:

> **- always justify on an individual basis the possible non-application of one or more independence criteria;**
>
> **- define ex ante the quantitative and/or qualitative criteria to be used for evaluating the significance of the relationships under examination.**

On the issue of the **board's self-assessment**, the Committee invites the boards of directors to:

**- evaluate the contribution of the board to the definition of strategic plans;**

**- oversee the board review process.**

On the issue of the **appointment and succession of directors**, the Committee invites the boards of directors to:

**- report promptly on the activities carried out by the nomination committee in the event that it is unified with the remuneration committee or its functions are attributed to the whole board;**

**- ensure the completeness and timeliness of the resolution proposals functional to the process of appointing the corporate bodies and express, at least in non-concentrated ownership companies, an orientation on its optimal composition;**

**- provide, at least in large companies, a succession plan for executive directors that identifies at least the procedures to be followed in the event of early termination of office.**

On the issue of **remuneration policies**, the Committee invites the boards of directors to:

**- provide clear information on the identification of the weight of the variable component, distinguishing between components linked to annual and multi-year time horizons;**

**- strengthen the link between variable remuneration and long-term performance objectives, including, where relevant, also non-financial parameters;**

**- limit to exceptional cases, subject to adequate explanation, the possibility of disbursing sums not linked to predetermined parameters (i.e. ad hoc bonuses);**

**- define criteria and procedures for the assignment of severance payments;**

**- verify that the amount of remuneration awarded to non-executive directors and to members of the controlling body is adequate for the competence, professionalism and commitment required by their office.**

ATTACHMENT: EIGHTH ANNUAL REPORT ON THE APPLICATION OF THE GOVERNANCE CODE