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Milan, 14th December 2023

To the Chairmen of the board of directors of listed companies

c.c. to the Chief executive officer of listed companies

c.c. to the Chairmen of the supervisory bodies of listed companies

Dear Chair,

I am writing to you as Chair of the Italian Corporate Governance Committee (hereinafter the "Committee") supported by Abi, Ania, Assogestioni, Assonime, Borsa Italiana, and Confindustria, to promote good corporate governance in the financial community through self-regulation. To this end, the Committee has the task of issuing and updating the code of corporate governance best practices (hereinafter the "Code") and periodically monitoring the status of its application by the companies that declare to adopt it. In order to implement this task, the Committee approves an annual report on the application of the Code (hereinafter the "Report"), which reached its eleventh edition this year.

Starting in 2015, the Committee decided to accompany the publication of the Report with a Letter to all listed companies, to give greater evidence of the monitoring activity and highlight the main critical findings, formulating specific further recommendations aimed at strengthening the credibility of adherence to the Code, as a signal of the quality of the implemented governance practices.

By adhering to the Code, companies are committed to the market to ensure the adoption of the best governance practices defined by the *principles* and *recommendations* of the Code and to provide adequate information on how they are applied, according to the "*comply or explain*" principle. This commitment is also recognized in the Consolidated Finance Act (so-called TUF), which imposes precise obligations on companies to provide information on the matter and assigns to their supervisory body a specific duty of supervision on the methods of concrete implementation of the corporate

governance provisions recommended by the governance codes which the company declares to adhere¹.

The monitoring carried out this year concerns the corporate governance reports related to 2022 and published in 2023. It constitutes the second analysis of the application of the last version of the Code, approved on 31 January 2020 and entered into force in 2021.

The new Code has profoundly innovated the approach of self-discipline for the governance of listed companies, with the introduction of '*sustainable success*'² as the primary goal that must guide the board of directors in leading the company³. With this choice, which anticipated the evolution of legislation on sustainability, the new Code provides a model of conduct consistent with the need – deeply felt by companies and expressed by the market and civil society – for greater accountability of business activity to the environmental and social context in which companies operate.

With this Letter, the Committee intends to communicate to the companies the main general indications on the application of the Code that emerged from the monitoring activity, and to identify – with reference to the recommendations functional to the full implementation of the new purposes of the Code – ways of application that could lead to their more effective implementation. The Committee paid particular attention to the application of the "*comply or explain*" principle, noting the desirability of better transparency in the practices adopted in applying specific Code's recommendations, as well as in clearly identifying any deviations and explaining their reasons⁴.

The aim is to improve the transparency of governance practices in accordance with the guidelines of the Code, to encourage an increasingly conscious application of the Code by the companies that adopted it and, more generally, to promote the evolution of corporate governance by all companies listed on the Italian regulated market according to the principles of the Code, regardless of their formal adherence to it. To this end, the Letter is also addressed to Italian listed companies that, on 31 December 2022, did not adhere to the Code, as well as to foreign companies with the main trading

¹ Art. 149, paragraph 1, lett. c-bis) TUF.

² Corporate Governance Code, *Definition*: "*sustainable success: the objective that guides the actions of the board of directors and that consists of creating long-term value for the benefit of the shareholders, taking into account the interests of other stakeholders relevant to the company.*"

³ Corporate Governance Code, *Principle I*.

⁴ Corporate Governance Code, *Introduction*.

venue in Italy. Regarding the latter, the Committee intends to encourage the opening of a fruitful dialogue, also through the organization of targeted initiatives, to promote greater convergence of the best governance practices of all companies listed on the Italian market.

I therefore invite you to submit the "**Report 2023**" and the "**Recommendations of the Committee for 2024**", enclosed to this letter, for examination by the board and the relevant committees, in order to analyze the alignment of the company's practices with the recommendations and to identify any gaps in the application or explanations provided. I would also ask you to ensure that these documents are properly considered in the self-assessment of the board and committees. This Letter is sent for information to the Chairperson of the controlling body for appropriate assessment, given the duty of this body to supervise the methods of actual implementation of the Code.

The Committee recommends that the results of the analyses carried out should be the subject of a specific debate within the board, aimed at assessing the company's position with respect to the Committee's Recommendations and defining any initiative for the evolution of the governance.

The Committee also suggests that the considerations made regarding the Recommendations and any initiatives undertaken or planned should be spotlighted in the next corporate governance report to enable the market to assess the evolution of the quality of the governance systems and to allow companies to signal their commitment in this regard. The Committee has entrusted the Technical Secretariat – which is available for any clarification or further information (segretario@comitato-cg.org) – to examine the considerations disclosed by the companies, in order to ensure a timely and complete monitoring of the evolution of the Code's application practices, with regard to the issues covered by the specific recommendations.

Best regards,

Massimo Tononi

All.: c.s.

THE COMMITTEE'S RECOMMENDATIONS FOR 2024

1. Adherence to the Code

At the end of 2022, the 95% of Italian companies with shares listed on the “Euronext Milan” market (EXM) formally declared that they adopted the latest version of the Code. The choice not to adopt it is limited to a few cases (10 companies) and generally due to the small size of the company (8 companies are "not large").

The Committee notes that a company adhering to the Code has decided not to adhere anymore, while confirming its commitment to implement some of its recommendations; on the contrary, it is noted that some non-adhering companies have announced their intention to consider the adhesion to the new Code, appreciating its increased flexibility and proportionality.

A positive sign of the structural function that adherence to the Code plays in the market access process is that all Italian companies listed on the EXM since 2010 have adhered to the Code. Moreover, these companies show a higher level of implementation of the recommendations than companies listed before 2010.

Overall, adherence to the Code is to be evaluated positively. On the one hand, there is a gradual improvement in the information provided on the Code's new themes, such as the sustainable success and the dialogue with shareholders and other relevant stakeholders, although there is still room for improvement in the evolution of practices. On the other hand, there is growing attention to some of the flexibility and proportionality measures offered by the Code (in particular, the board self-assessment on a three-year basis and, albeit less markedly, the increased possibility of not setting up one or more board committees, assigning the relevant functions to the entire board of directors). Indeed, the new Code has expanded the possible ways of implementing some recommendations according to the size and ownership structure of the companies, in particular allowing "not large" and "concentrated property" companies to adopt simplified organizational and procedural solutions compared to those provided for other companies.

This choice does not represent a reduction of the Code's ambitions compared to expected best practices, as defined in the Code's principles, but intends to offer greater flexibility in the definition of specific implementation methods for companies with less organizational complexity, also to avoid, in a comparative perspective, that these companies are systematically considered less in line with the Code than larger companies with more complex organizational models.

The enhancement of the principle of proportionality is intended to strengthen the application of the Code and to optimize one of its fundamental inspiring principles: that of “*the prevalence of substance over form*”⁵; indeed, the accumulation of new layers of regulation and best practices threatens this principle, by the prevalence of formal compliance that penalizes less consolidated business and can discourage access to the capital market.

While the adoption of the Code by Italian listed companies is growing, it is still substantially disregarded by foreign companies that have the Italian market as their main listing market, although the new Code has gone beyond the previous approach that limited its scope of application only to domestic companies and is now addressed to all companies, Italian and foreign, listed on the Italian regulated market⁶. Only two foreign companies (out of 13 with the main listing in Italy) have adopted the Italian Code, and only two further foreign companies have considered parts of the Italian Code, relating to the internal control and risk management system, while systematically adhering to the corporate governance code of their country of incorporation⁷.

Given the growing importance of foreign companies on the Italian market, accounting for more than a third of total market capitalisation, the Committee considers it appropriate to renew the invitation to these companies – which was already addressed last year – to evaluate the adhesion to the Italian Code. The Committee is available to evaluate with the foreign companies any measures that could facilitate the adherence process.

2. Information on the application of the Code

The analysis in the Report shows that the quantity and quality of information provided by companies in their corporate governance reports have reached and, in many cases, exceeded the prevailing international standards. Generally, they provide an adequate understanding of the essential characteristics of the adopted governance model, allowing the evaluation of the application of the Code’s recommendations, and providing explanations in cases of total or partial disapplication, according to the “*comply or explain*” principle.

⁵ Expressly recognized as a general principle of the Code. V. Code of Corporate Governance, *Introduction*.

⁶ This theme was already highlighted in the Committee's previous Report and was the subject of a broader recommendation in the President's Letter of January 25, 2023, where all companies listed on the EXM, including those under foreign law, were invited to consider joining the Italian Code.

⁷ Assonime-Emittenti Titoli 2023.

This year's analysis confirms a widespread commitment of companies to implement the Code's main innovations, including the sustainable success and the development of dialogue with shareholders and other relevant stakeholders. At the same time, considering that the application of these innovations is still subject to a physiological and natural evolution of practices, the Committee's monitoring highlights some areas of improvement to which attention will need to be paid.

3. The effects of the 2023 recommendations

The corporate governance reports published in 2023 show that almost all companies adhering to the Code (about 93%) considered the recommendations contained in the last Letter sent by the Chair of the Committee to evaluate their degree of adherence to the Code.

In some cases (15%), companies indicate areas of improvement identified after the evaluation of each recommendation provided in the Letter. The areas of potential improvement refer mainly to: the definition, in the board regulations, of the timing of sharing pre-board meeting documentation; the adoption of policies of dialogue with shareholders and the promotion of further stakeholder dialogue initiatives; and the integration of predetermined and measurable non-financial parameters related to sustainability issues into executive directors' compensation policies. In some rare cases, companies are committed to improving the board's contribution to the orientation on its optimal composition.

The indications of the Letter were also considered by half of the Italian companies that do not adhere to the Code (a stable figure compared to last year, but an increase compared to 20% in 2021), confirming the increasing value of the Committee's monitoring activities for all listed companies, even beyond their adherence to the Code.

An in-depth review of the information provided in the corporate governance reports published in 2023 highlights some areas for improvement both in the application of the new Code recommendations – in particular: sustainability and dialogue with shareholders and other stakeholders, where it is reasonable to expect a gradual evolution of best practices – and in the less innovative areas of the Code, in respect of which the Committee has already had the opportunity to make specific recommendations in the previous letters sent through its Chair.

A progressive improvement in practice is noted in the development of ***dialogue with shareholders and other relevant stakeholders***, which is one of the most innovative elements of the Code: the increase in shareholder dialogue policies (74% of listed companies compared to 60% in 2022) is also accompanied by a better disclosure on the activities carried out in implementing the policy (50%

compared to 10% in 2022), although disclosure is mainly provided only with reference to the activities conducted by the investor relator and the management. In contrast, despite the general improvement of the information provided on the adherence to sustainable success, disclosure on how the outcomes of stakeholder dialogue are conveyed and evaluated by the board is still infrequent (19% of listed companies compared to 15% in 2022).

Compared to the first survey conducted last year, the information that companies provide in cases where the *chair is the CEO* of the company or is attributed *significant managerial powers*, is improving (59% of cases compared to 43% in 2022).

The levels of adherence to the Code regarding the *pre-board information and management participation at board meetings* remain substantially unchanged. With regard to pre-board information, there are still possible improvements both in ex-post information on whether the previously adopted notice period was actually observed, and, above all, in the provision of generic exemptions from the notice period for confidentiality reasons (the absence of ex-post information and the presence of the confidentiality requirements result in almost 30% of the listed company). Information on the effective participation of managers in board meetings was substantially stable (82% vs. 80% in 2022).

The board's commitment with respect to *guidelines on its optimal composition* in companies with non-concentrated ownership is gradually improving compared to the past: in 71% of non-concentrated companies and in 43% of concentrated companies that renewed their board in 2023, the outgoing board provided guidance on its optimal composition (it was 50% and 45%, respectively, with reference to the same non-concentrated and concentrated companies that renewed their boards in 2020⁸). On the other hand, there is still significant room for improvement of the timeliness of the publication of these guidelines, which are still very frequently (84%) published less than 30 days before the publication of the notice of shareholders' meeting (in these cases, the median term is 8 days before⁹).

⁸ The increase is also significant when looking at non-concentrated and concentrated companies that renewed their board of directors in 2022, where the direction expressed by the board was noted in 50% and 36% of cases, respectively; of course, the figure relates to a different group of companies that renewed their boards last year, but it is still a useful yardstick for assessing the effects of the recommendations in the latest Chair's Letter.

⁹ In almost a third of these cases, the guidance is published at the same time as the notice of the shareholders' meeting; in the remaining cases, the average notice is 17 days. For more details see Section 2.2.4. of the Committee's Annual Report attached to this Letter.

The formalisation by the board members of criteria for assessing the **significance of business, financial and professional relationships and additional compensation** (in order to identify the ones that can affect directors' independence) is improved with a significant evolution, particularly with reference to the reports published prior to the publication of the 2020 Code (71% of companies compared to 55% in 2022, 25% in 2021 and 9% in 2020).

As regards remuneration, room for improvement continues to emerge: clear information on **the target weight of variable components**, eventually summarised in an executive summary, is provided only in about 42% of the listed companies (39% in 2022); clear information on the **measurability of targets related to sustainable success** is provided in around 41% of listed companies that include at least one ESG KPI (substantially equivalent to the 2021 figure)¹⁰. Finally, the adherence to the Code's recommendation to include a long-term component in directors' compensation improved slightly: it is present in 74% of listed companies (up from 69% in 2022).

4. The Committee's Recommendations for 2024

A close examination¹¹ of the information provided in the corporate governance reports published in 2023 shows signs of improvement in many of the areas reported in recent years, highlighting both the long-term effectiveness of the Committee's recommendations, and the gradual adherence of companies to the new Code. Moreover, the Committee notes that it is still relevant the invitation, made in last year's Letter, to more clearly and concisely represent adherence to the Code, identifying any cases of disapplication of the recommendations and providing the appropriate reasons: **in fact, there remain areas where the level of disclosure does not allow for an adequate assessment of the consistency of the practices adopted with the Code's recommendations.**

To consolidate current trends, the Committee, therefore, considers it appropriate to highlight some specific Code's provisions, emphasizing the importance of providing adequate reasons for any deviations from the corresponding recommendations of the Code.

Business Plan

The Committee draws attention to **Principle I** of the Code – already the subject of a recommendation for 2022 – with reference to **Recommendation 1 a)** which requires that the board of directors "reviews

¹⁰ For more details, see Section 2.4.3. of the Committee's Annual Report attached to this Letter.

¹¹ For more details see Corporate Governance Committee, Annual Report 2023, Part II, based on Assonime-Emittenti Titoli 2023 data.

and approves the business plan, also on the basis of matters that are relevant for the long-term value generation".

The analysis of the corporate governance reports shows that, while it is common to assign to the board of directors the task of examining and approving the business plan, it is much less frequent the disclosure on the effective execution of this task, with particular reference to the analysis of issues relevant to long-term value generation, that is intended to be functional to the approval of the business plan.

The Committee recommends that companies provide adequate disclosure on the board's involvement in reviewing and approving the business plan, as well as in analysing issues that are relevant to long-term value generation.

Pre-board information

The Committee also draws attention to **Principle IX** of the Code – which is the subject of a recommendation for 2023 – with reference to **Recommendation 11**, which requires the board to define the procedures for providing information to directors, specifying that these procedures should *"identify the prior notice for the submission of the documentation, ensuring that confidentiality issues are properly managed without affecting the timeliness and completeness of the flow of information"*.

The analysis of corporate governance reports shows that the boards of directors very frequently define one or more notice periods; however, it still seems a widespread practice the provision of exemptions to those deadlines, for generic reasons of confidentiality/secretcy of information.

While acknowledging the improvements, **the Committee encourages companies to give adequate justifications – in the corporate governance reports – in case of derogation from the timeliness of pre-board information due to confidentiality reasons, when this derogation is provided in board regulations and/or adopted in practice.**

Guidelines on Board's optimal composition

The Committee also draws attention to **Principle XIII** of the Code, which is the subject of a recommendation for 2023, with particular reference to **Recommendation 23**, which requires that, in non-concentrated companies, the board of directors – before its renewal – should express *"guidelines on its optimal quantitative and qualitative composition, considering the outcome of the board*

evaluation", and publish them "on the company's website before the publication of the notice of the shareholders' meeting convened for the board's renewal", requesting "anyone submitting a slate with a number of candidates that is higher than half the number of members to be elected to provide adequate information on the compliance of the slate with the board guidelines".

The analysis of corporate governance reports shows that a considerable number of companies have not formulated guidelines on board's optimal composition; only a minority of companies that have formulated these guidelines have published them at least 30 days in advance of the notice of the shareholders' meeting, allowing adequate consideration by shareholders who submit lists of candidates.

While acknowledging the improvements made, **the Committee recommends that companies clearly indicate and give adequate justification – in the corporate governance report – in case of failure to express guidelines on board's quantitative or qualitative composition when the board of directors is renewed, and/or in case of failure to require shareholders submitting a "long" list to provide adequate information about the list's alignment with the expressed guidelines. The Committee also encourages companies to indicate if and how the timing of the publication of the guidance has been deemed appropriate to allow an adequate consideration by shareholders presenting the lists of candidates.**

Increased voting rights (so-called "voto maggiorato")

In addition to the recommendations made in previous years, also in consideration of the recent legislative developments discussed in Parliament, the Committee draws attention to **Principle III** of the Code, with particular reference to **Recommendation 2**, which requires that: *"if the board of directors intends to propose to the shareholders' meeting the introduction of increased voting rights (so-called "voto maggiorato"), it provides adequate reasons in the report that will be submitted to the shareholders prior to their meeting. The report indicates the expected effects on the company's ownership and control structure and its future strategies. In the same report, the board discloses the decision-making process followed for the definition of such a proposal and any dissenting opinions voiced within the board".*

The analysis of corporate governance reports shows that full compliance with the recommendation has been ensured only by less than one-fifth of the companies that have introduced the increased

voting right since 2020, and that the information provided is mostly absent or generic, in particular with reference to the purpose of the choice and the expected effects on future strategies.

The Committee recommends that – in the board of directors’ proposals to the shareholders’ meeting concerning the introduction of the increased voting rights – companies adequately disclose the purpose of this choice and the expected effects on ownership and control structures and future strategies, providing adequate justification for any failure to disclose these elements.

ANNEX: ELEVENTH ANNUAL REPORT ON THE APPLICATION OF THE CORPORATE GOVERNANCE CODE