



MECAER | AVIATION | GROUP

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Share Capital €13,138,000.00 fully paid up
Fiscal Code and Business Register of Novara 01415510039
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CORPORATE GOVERNANCE

**prepared on a voluntary basis
pursuant to article 123-bis of Legislative Decree no. 58/1998**



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INTRODUCTION

This report (hereinafter the “Report”) has been prepared by the Board of Directors of Mecaer Aviation Group S.p.A. (hereinafter also “MAG” or “the Company”) by adopting, on a voluntary basis, the “corporate governance report” that is required for companies listed on the Mercato Telematico Azionario (Electronic Share Market) established and operated by Borsa Italiana S.p.A. pursuant to article 123-bis of Legislative Decree no. 58/1998, as amended.

This Report provides information about:

- the corporate governance system applied, on a voluntary basis, by Mecaer Aviation Group S.p.A. (hereinafter also “MAG” or “the Company”) in accordance with the provisions of the Corporate Governance Code for listed companies - as approved in March 2006, amended in March 2010, updated in July 2015 and lately in July 2018 with an integration of the Code about diversity policies, including gender by the Corporate Governance Committee - and promoted by Borsa Italiana S.p.A. (hereinafter also “the Corporate Governance Code”);
- the main features of the internal control and risk management system; and
- the Company’s ownership structures.



FOREWORD

Mecaer Aviation Group S.p.A. identifies in the Corporate Governance Code for listed companies a reference model for its organisational structure and operating practice with regard to Corporate Governance.

Over the years, the Company has used the Corporate Governance Code as a reference model in an attempt to initiate - step by step and consistently with MAG characteristics - a process aimed at adjusting its business and corporate organisational structure to the guidelines provided in the Corporate Governance Code.

MAG adopted the traditional management and control model, providing for the presence of three bodies, two of which appointed by the shareholders' meeting:

- **shareholders' meeting**, held as ordinary and extraordinary meetings and called to pass resolutions in accordance with the law and by-laws;
- **the board of directors**, appointed to perform administration and company management;
- **board of statutory auditors**, required to oversee: compliance with the law and the deed of incorporation and with the principles of correct administration in the performance of company activities; (ii) the adequacy of the company's organisational system, the internal control system and the administration/accounting system, (iii) the ways in which corporate governance is actually implemented, (iv) risk management, (v) the statutory audit and the independent auditors' independence.

In the gradual, but continuous adjustment to the provisions of the Corporate Governance Code which the Company has adhered to, the following bodies integrate the model committees set up within the board of directors to renew company bodies, with responsibility for making proposals and recommendations on specific issues without decision-making power, such as the appointment and remuneration Committee, as well as a Strategic Committee, intended as an advisory and strategic body.

The inclusion of an Internal Audit function, in charge of a verification program on the functionality and adequacy of the corporate control and risk management system, is currently being defined.

The Group's administrative and control model includes the Supervisory Body, which was set up following the Group's adoption of the organisational and management model pursuant to Legislative Decree no. 231/2001, whose functions, since 25 March 2013, are entrusted to the board of statutory auditors, as permitted by Law no. 183/2011.

In order to ensure effective and expedite management of the Company, a clear-cut separation has been made - although preserving a continuous relationship of collaboration and information exchange - between:

- the economic and financial management, entrusted to the managing director and general manager;
- the internal control and risk management system, entrusted to one of the two Deputy Chairmen, as the "Director in charge of the internal control and risk management system".

This Report refers to the Corporate Governance Code in the version published in July 2018, available to the public on the Borsa Italiana website via the link below:

<http://www.borsaitaliana.it/comitato-corporate-governance/codice/2018clean.pdf> .



BOARD OF DIRECTORS

The board of directors was appointed by the shareholders' meeting on 29 December 2018 and was set to remain in office for 3 years and, specifically, until the meeting called to approve the financial statements as at and for the year ending 30 September 2018.

The board of directors carried out an *in itinere* assessment of the adequacy of its and its committees' size, composition and functioning, which showed that:

- the board of directors' size (seven members, falling within the by-laws' provision requiring from five to nine members) is adequate, considering the business size and type;
- considering that the board of directors consists of four executive directors experienced in business management and three non-executive directors with different expertise, two of whom are independent, its composition is adequate;
- the board's functioning and that of its committees is consistent with the company's size and type of activities and with the duties assigned to the Chairman and Managing director.

In order to ensure that governing bodies include persons capable of ensuring that the role assigned to them is discharged effectively, the board of directors – with the advisory support of the Appointment and Remuneration Committee shall:

- (i) define in advance the professional expertise required to achieve this result;
- (ii) define, in connection with the characteristics of the Company, the qualitative and quantitative composition of corporate bodies (identifying and justifying the theoretical profile – including the features of professionalism and independence – that is deemed appropriate for candidates);
- (iii) verify that the outcomes of the appointments comply with the guidelines on the qualitative and quantitative composition that is deemed an optimum;
- (iv) submit the composition and functioning of the board of directors to regular self-assessment.

The results from the analyses as per sub-clauses (i) and (ii) are notified to the shareholders in good time, so that the candidate selection and appointment process may take account of such guidelines.

The board of directors consists of 5 members, including:

3 executive directors:

Bruno Spagnolini, Chairman, qualified as executive director because, in charge also as Chief Executive Officer, he participates as Managing director in drafting corporate strategies to submit to the board of directors for approval;

Corrado Monti, Deputy Chairman acting as substitute, qualified as executive director also in connection with the position of Director in charge of the internal control and risk management system;

Valter Pasqua, Deputy Chairman acting as Chairman of the Strategic Committee, which is intended as an advisory and strategic body.

2 non-executive directors, as they are not assigned individual management duties and do not discharge management functions within the Company or Group companies:

Emanuele Vignoli

Lorenzo Caporaletti



Appointment procedure

Below are the provisions as per article 15 of the by-laws regarding the procedures for the appointment of directors on the basis of lists. These provisions have been in force since 24 September 2009.

Article 15 of the by-laws:

"15.1 The company is governed by a board of directors made up of, as determined by the shareholders' meeting, 5 (five) to 9 (nine) members, provided they are an odd number, even if they are not shareholders. They

shall remain in office from 1 (one) to 3 (three years) and their term shall expire at the date of the shareholders' meeting called to approve the financial statements for the last year of their term. Directors may be re-appointed.

15.2 The members of the board of directors are appointed by the shareholders' meeting based on the lists submitted by the shareholders consistently with the procedure and the methods below:

(a) each shareholder may only file or contribute to the filing of one list and each candidate may only file as candidate in one list under penalty of disqualification;

(b) each list must contain a number of candidates, listed progressively, up to the maximum number of directors provided for by the shareholders' meeting pursuant to article 15.1;

(c) only the shareholders that on their own represent at least 10% of the voting shares within the shareholders' meeting are entitled to file their lists;

(d) the list must be filed at the Company's registered office at least 5 (days) before the day appointed for the shareholders' meeting at first call. Within this time limit, together with each list, the candidates' *curriculum vitae* shall be filed, as well as the declarations with which candidates accept their candidacy and state, under their responsibility, that there are no grounds for disqualification and incompatibility, and that they fulfil the requirements prescribed by the applicable regulations and the by-laws for such office;

(e) the list for which the covenants above have not been complied with as per item (d) is regarded as not filed;

(f) each person with voting rights may only vote one list;

(g) the votes obtained by each list are then divided by one, two, and three and so forth depending on the number of directors to be appointed. The resulting ratios are attributed on a progressive basis to the candidates of each list, according to the order set out therein, and the candidates from the different lists are ranked in decreasing order based on the applicable ratio. The candidates receiving the highest ratios will be appointed;

(h) where multiple candidates have received the same ratio, for the last director to be appointed priority is given to the candidate from the list with the highest number of votes, in the case of an equality of votes, to the oldest candidate.

15.3 Where only one list is filed, the candidates set forth therein shall be appointed as directors if the list has received a percentage of votes equal to the majorities required by law for the appointment of corporate bodies. Where no lists are filed, the board of directors shall be appointed by the shareholders' meeting with statutory majorities.

15.4 If during the year one or more directors cease office, they are replaced pursuant to the first paragraph of article 2386 of the Italian Civil Code. If, however, the majority of the directors appointed by the shareholders' meeting cease their office for whatever reason before the actual expiry of their term, the whole board of directors vacates office and the shareholders shall be convened as a matter of urgency by the directors that have remained in office to set up the new board of directors. Furthermore, the board of directors shall only remain in office to perform any acts within the ordinary course of business until the shareholders' meeting has decided on the board's renewal, according to the procedures laid down in articles 15.2 and 15.3 above.

15.5 The overall fee to be paid to all board's members is set by the company's shareholders' meeting every year. Within the limits of the overall fee as above, the remuneration for each director shall be determined by the board of directors, taking into account such functions and duties as may be assigned to each director."



Non-executive directors

Given their authority and specific expertise, non-executive directors provide their significant and qualified input in the board's resolutions according to the social interests. Their specific expertise may favour a considered and informed decision-making process at meetings.

Independent directors

The inclusion of independent directors is currently being defined, among which could also be chosen one of them as "Lead Independent Director".

Cross-directorship reporting concerning the members of the board of directors

No specific guidelines have been set forth as to the maximum number of positions that may be held in other companies by board's members. Also in line with the criteria underpinning the application of the Corporate Governance Code, directors, will accept a position because they think they can devote the necessary time to perform their task with due diligence, also taking into account the commitment involved in their occupational activities.

Functions and activities of the board of directors

The board of directors is the key element in the company structure and organisation; pursuant to article 19 of the by-laws, it is "vested with the broadest powers for all acts within the ordinary and extraordinary course of business", with the exception of those powers that by law mandatorily fall under the purview of the shareholders' meeting.

The board of directors is vested with the functions and the responsibilities associated with the strategic and organisational courses of actions, and with verifying that the required controls are in place to monitor the company's performance.

Given the central role of the board of directors within MAG corporate organisation, great importance is given to the professional expertise in financial and industrial matters and to directors' conduct in discharging their function. While in office, directors shall embrace and comply with the laws and by-laws as well as the policy principles as, from time to time, are adopted with respect to conflict of interest, confidentiality, protection and use of corporate assets, including the Code of Conduct.

The duties that under the by-laws may be assigned by the board to the delegated bodies shall not include, apart from any subject-matters that by law may not be delegated, also specific issues listed in article 16 of the by-laws in force, as follows:

"(a) exercising the voting right at the meetings of investees, uniquely in the event of resolutions concerning the issues listed in the items below;

(b) creating and designating the members of any committees within the board of directors;

(c) approving budgets and multiannual plans;

(d) acquiring shareholdings, businesses, licences, and know-how costing more than €1,500,000.00 (one million five hundred thousand), including the target company's and the business unit's indebtedness, transfer of shareholdings and/or interests in companies and undertakings, of businesses and of business units, business or business unit leases, and setting up (or the participation in setting up) new undertakings and companies. To this end, transfer means any act that substantially entails the sale or, in any case, disposal or sale of an asset in any way (at a cost or at no cost, *inter vivos* or *mortis causa*), or the exchange of an asset for another asset (if, as the case may be, due to a merger, demerger, contribution, etc.), in a definitive manner or on a purely temporary basis, including through the creation of rights, collateral or mandatory guarantees on the asset (such as, but not limited to, rights to use, liens or mortgages);



- (e) entering into joint-venture agreements (through the establishment of undertakings) and dormant holdings;
- f) providing collaterals on tangible and intangible assets of the company; issuing personal guarantees, including atypical guarantees, to third parties, cumulatively, over each calendar year, amounting to more than €500,000.00 (five hundred thousand), which does not prove to be in the interest of the company or is not connected with its ordinary course of business;
- (g) granting loans to third parties which are not included in trade agreements;
- (h) borrowing money and taking on other financial debt of any kind (excluding through the issue of bonds, whether convertible or not, which comes within the remit of the shareholders' meeting), when the total financial indebtedness of the company, together with the new loans to be taken, are over twice the amount of the consolidated cash flow of the Group featuring the company as against the previous year, represented by the algebraic sum of net profits or losses plus depreciation/amortisation;
- (i) acquiring, transferring or performing other disposals of immovable property;
- (l) transferring and performing other disposals of movable, tangible and intangible assets (including intellectual and industrial property) receivables, bonds, securities or other financial instruments or other right of the company with a unit amount exceeding €250,000.00 (two hundred and fifty thousand);
- (m) executing transactions with shareholders, directors, members of their families or any entity controlling, controlled by, or under joint control by any of the entities above. To this end, Control means a relationship between a specified entity (both a natural or a legal person) and a legal person, whereby the former have control on the latter, pursuant to and for the purposes of the provisions of article 2359 of the Italian Civil Code and/or article 23 of Legislative Decree no. 385 of 1 September 1993 (Consolidated Law on Banking) and/or of article 7 of Law no. 287 of 10 October 1990 (Rules for the protection of competition and markets). The terms "Controlled" and "Controlling", as used in these by-laws, shall be construed consistently with the meaning of "Control";
- (n) issuing mandates for the organisation of the activities and evaluations in connection with a possible listing on the stock exchange of the company (including the mandate as Global Coordinator);
- (o) entering into severance payments and transactions with a unit value of more than €100,000.00 (one hundred thousand) and cumulatively, over each calendar year, amounting to more than €150,000.00 (one hundred and fifty thousand);
- (p) establishing assets to be allocated to a specific deal, as per article 2447 bis of the Italian Civil Code;
- (q) issuing a welcoming statement upon entry of new shareholders, pursuant to the last subparagraph of the previous paragraph 7.1."

The decisions concerning the issues listed above are duly passed by favourable vote of at least six currently serving directors out of seven; the decisions concerning, on an exclusive basis, one or more issues other than those listed above are adopted by a majority of the votes cast by the directors in office and, in the case of an equality of votes, the Chairman shall have a casting vote.

Furthermore, the board of directors shall:

- review and approve the company's and Group's corporate governance system and structure;
- review and approve the company's and Group's industrial and financial strategic plans submitted by the Managing director, and regularly verify implementation thereof;
- define the nature and risk level consistent with the company's strategic targets;
- review and approve the company's and Group's budget, half-yearly report, pre-closing data report, and draft financial statements;
- evaluate the adequacy of the company's organisational, administrative, and accounting structure, including that of any subsidiaries playing a strategic role, with specific reference to the internal control and risk management system;
- based on the information received from the Managing Director at least on a quarterly basis, evaluate the performance of operations, through a comparison between achieved and planned results;
- approve in advance any company's and Group's transactions that may have a significant economic and financial, and anyway, strategic importance;
- at least on an annual basis, evaluate the adequacy of the internal control and risk management system in relation to the business characteristics and the risk profile adopted, and its effectiveness,



thereby including any risks that may impact in view of the medium-long term sustainability of company's activities;

- define the guidelines for the internal control and risk management system with the Director in charge of this task and determine the degree of compatibility of such risks with a management consistent with any strategic targets identified;
- with the favorable opinion of the Statutory Board, the Board of Directors shall appoint the Manager responsible for preparing the company's financial reports" in accordance with Law 262/2005 and, in particular, with article 154-bis of Legislative Decree no. 58/1998, chosen among the Managers with, at least, three years' experience in the areas of accounting and finance in the company, its subsidiaries and/or other companies; the Board of Directors shall ensure the requirements of the appointed as required by law. In addition, the Board of Directors shall give the Manager responsible for preparing the company's financial reports all the necessary powers and resources to perform the tasks assigned
- appoint and revoke the internal auditor, upon the proposal of the Director in charge of the internal control and risk management system, and after hearing the opinion of the board of statutory auditors; with the support of the Director in charge of the internal control and risk management system, verifies whether the internal auditor can rely on adequate resources to discharge his/her function; at least on an annual basis, approve the work plan prepared by the internal auditor, after consulting the board of statutory auditors and the Director in charge of the internal control and risk management system;
- after hearing the opinion of the board of statutory auditors, evaluate the results disclosed by the company hired for the statutory audit, the suggestions and any key matters arising at auditing stage;
- assign and revoke the duties to the Managing Director and define the limits and the methods to discharge them;
- as a result of the resolution passed by the shareholders' meeting as to the overall fee to be paid to the members of the board of directors, upon the proposal of the Appointment and Remuneration Committee and after hearing the opinion of the board of statutory auditors in compliance with article 2389 of the Italian Civil Code, determine how directors' remuneration should be apportioned;

The control and approval of any related party transactions shall be reserved to the board of directors, as a whole.

Upon request of the board of directors, executives and managers may be invited to board's meeting. The issues pertaining to the business units within Group's companies can be fully explained to the board and directors can gain greater insights into the different corporate circumstances and dynamics; executives and managers must keep themselves available to illustrate and, anyway, clarify any of the items on the board's agenda.

Related-party transactions

The company has currently no procedures in place (for both significant and non-significant transactions) concerning related-party transactions pursuant to Consob Regulation no. 17221 of 12 March 2010, as later amended with resolution no. 17389 of 23 June 2010, containing related-party transaction provisions.

Where the company intends to execute any transactions in which a director has an interest on his/her own account or on the account of a third party, the director shall first disclose such interest to the board of directors and the board of statutory auditors as per article 2391 of the Italian Civil Code and shall not attend, unless otherwise specified by the board of directors based on the features of the transaction, the relevant board's discussion and decisions.



CHAIRMAN

The Chairman of the board of directors does not hold management powers, however, is responsible for acting as legal representative of the company with third parties and in legal proceedings as per by-laws.

The Chairman's role is modelled to ensure consistent company management and a continuous dialogue with shareholders; he is responsible for chairing the shareholders and his function is to inform the shareholders' meeting about the most significant transactions, with the aim of clarifying how such transactions can benefit the company.

As noted above, in agreement with the Managing Director, the Chairman, shall contribute to drafting any strategies to be submitted to the board of directors for approval.

The Chairman shall summon and coordinate the board's meetings as well as prepare its agenda, including in agreement with the Managing Director and the other directors.

In order to ensure an adequately informed participation in the board's proceedings, the Chairman, through the board's secretary, shall first send to the directors and statutory auditors the documentation concerning any matters on the agenda.

MANAGING DIRECTOR

The board of directors on 29 December 2018 appointed the President, Bruno Spagnolini, also as Chief Executive Officer, , who was delegated to act as company's representative before third parties and in legal proceedings, together with a number of operational management powers, except for the issues that are under the sole responsibility of the board of directors, as stated and listed in the previous paragraph "Functions and activities of the board of directors".

The Managing Director is responsible for the company's business and financial management, with the aim of achieving profitability objectives through the attainment of sales targets, the optimisation of processes and resources involved and the fulfilment of the commitments with customers of all company operations worldwide with quality, flexibility and timeliness. The Managing Director is also responsible for ensuring the technical evolution of the product, in line with corporate strategies and market needs.

The General Business Development Department and the General Finance and Corporate Office Department and the management of all industrial structures consisting of business divisions organised by product/service line (Actuation & Landing Systems Division, Cabin Comfort System Division, and Aircraft Services Division) report to the Managing Director. Foreign controlled companies are involved in the Divisions arranged by product/service line and report to their respective Managers.

The Managing Director takes part in the board's meetings with voting right and, depending on the agenda defined by the Chairman, prepares and submits the necessary documentation to the board and makes sure that board members are adequately and effectively notified, in order for them to pass the required resolutions.

At least on a quarterly basis, the board of directors and the board of statutory auditors are informed, by the Managing Director, about the performance of operations and the activity carried out by the company and its subsidiaries, its predictable developments, any major business and financial transactions executed by the company and its subsidiaries.



STRATEGIC COMMITTEE

Pursuant to article 18 of the by-laws, the Company set up a strategic Committee within the board of directors, intended as an advisory and strategic body to create a closer link between the management structure and the board of directors.

The Deputy Chairman chairs the executive committee and it is composed of three other members of the board of directors:

Bruno Spagnolini, Chairman
Corrado Monti
Valter Pasqua.

The committee meets once a month to discuss specific topics.

The members of the Strategic Committee shall remain in office until the expiration of directors' tenure, namely until approval of the financial statements as at and for the year ending 30 September 2018, unless otherwise decided.

APPOINTMENT AND REMUNERATION COMMITTEE

In the light of the principle of proportionality as to company size, the board of directors set up within itself a single appointment and remuneration committee.

The Appointment and Remuneration Committee is composed of a non-executive director, a non-executive and independent director, and an executive director. The non-executive director was appointed to chair the Committee, and specifically:

Emanuele Vignoli – Chairman – non-executive director
Corrado Monti – executive director
Valter Pasqua – executive director

The members of the Appointment and Remuneration Committee shall remain in office until the expiration of directors' tenure, namely until approval of the financial statements as at and for the year ending 30 September 2018, unless otherwise decided.

The Chairman of the board of statutory auditors is entitled to attend the committee's meetings, but without voting right.

The board of directors assigned to the Appointment and Remuneration Committee the following functions and responsibilities, as set forth also in the relevant rules:

- to submit to the board the proposals for the (fixed and merit-based) remuneration of directors holding specific positions (e.g. Chairman, Deputy Chairmen and Managing Director), for the determination of performance objectives related to the merit-based component. It monitors the implementation of the decisions adopted by the board, taking into account the positions and any powers as delegated to each director;
- to draft proposals for the possible remuneration of the members of the Committees set up by the board;
- to evaluate on a regular basis the criteria adopted for the key managers' remuneration and overseeing on their implementation and drafting general recommendations in this respect to the board of directors;
- to review the remuneration and incentive programmes by evaluating their fitness for purposes of staff and management retention and the motivation in achieving corporate objectives;
- to submit proposals to determine corporate and performance objectives for key managers;
- to review and submitting proposals with reference to setting the fees and the remuneration criteria within subsidiaries, in order to favour consistent criteria;



- to review the actual achievement of performance objectives;
- to carry out such other tasks as may be assigned to it by the board of directors;
- if requested by the board of directors, to propose to the same the candidates for the function of Director as provided for in the first paragraph of article 2386 of the Italian Civil Code, whenever it is necessary to replace an independent director;
- upon specific request by any shareholders wishing to file lists, to evaluate the independence of candidates for the position of Director to be submitted to the shareholders' meeting of the company;
- to carry out a preliminary work in order to help the board of directors to perform its assessment with greater effectiveness, on an annual basis, as to board's size, composition, and functioning; to this end, it may express its opinion on the professional figures whose presence in the board is deemed appropriate.

While discharging its functions, the Appointment and Remuneration Committee may access all corporate information and relies on all corporate functions that are necessary to comply with its tasks.

As regards the functioning method - covered in a specific set of rules - the Committee meets in its entirety whenever the Chairman deems it necessary or at the request of the other two members.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

During 2013, the company arranged a corporate control system to improve rationalisation of the internal and external control system and give a central role to risk and with the aim of provide further support to the board of directors with regard to management and strategy evaluations and decisions.

The corporate control system was arranged according to the guidelines below:

- stepwise adjustment to the Corporate Governance Code in line with MAG's characteristics;
- central role of risk;
- establishment of a monocratic committee corresponding to the Risk and Control Committee, identified in the Director in charge of the internal control and risk management system/Chief Risk Officer;
- establishment of the risk management group;
- assignment to the board of statutory auditors of the Supervisory Body functions, in compliance with the new content of the Development Decree and Stability Law 2012;
- appointment of an internal auditor (being defined)

The system consists of seven structures divided into "Internal Control" and "External Control":

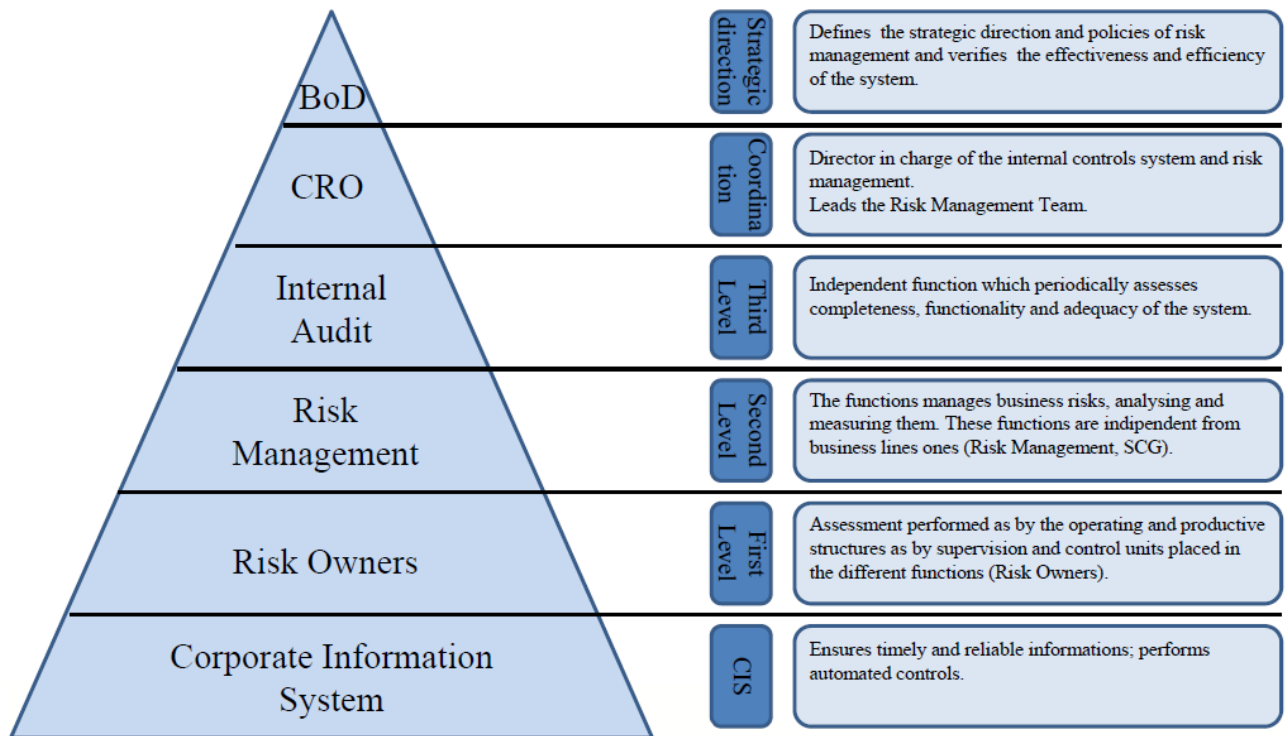
Internal control:

- Director in charge of the internal control and risk management system/Chief Risk Officer
- Internal Audit
- Management control system
- Risk Owners

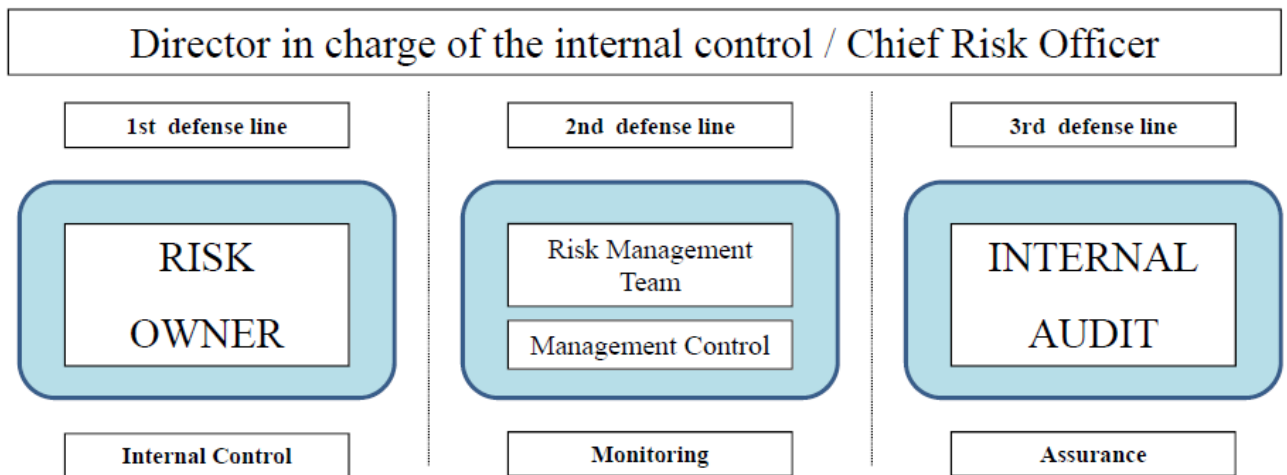
External control:

- Board of statutory auditors
- Company hired for the statutory audit
- Supervisory Body

The figure below is a functional chart of the structure of the internal control system created by the company:



and specifically it is represented by a “system with three lines of defence” as illustrated and represented below:



with:

- “first level” checks, defined first line checks performed directly by the managers of the operational areas;
- “second level” checks, aimed at monitoring corporate risks;
- “third level” checks, intended as a general review activity to be undertaken on the structure and the functionality of internal controls.



DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM CHIEF RISK OFFICER

In light of the principle of proportionality on company's size, the Director in charge of the internal control and risk management system has been reasonably identified as the one suitable person to manage the process in question, including identifying it as monocratic figure acting as Risk and Control Committee.

The board of directors appointed the Deputy Chairman Corrado Monti as Director in charge of the internal control and risk management system and entrusted him with the "Internal Control System Coordination", "Chief Risk Officer" coordinating the Risk Management work group, "Company Secretary's Office", "Legal Affairs", and the responsibility and management of Group's insurances.

The Director in charge of the internal control and risk management system operates by discharging the following functions:

- to enact the guidelines defined by the board of directors, by dealing with the designing, creation and management of the internal control and risk management system and constantly verifying its adequacy and effectiveness;
- to ensure identification of the main corporate risks, taking into account the features of the activities performed by the company and its subsidiaries and regularly report it to the board of directors for review;
- to require the internal auditor to carry out reviews on specific operational areas and on compliance with the internal rules and procedures in the execution of business transactions, simultaneously notifying it to the Chairman of the board of directors and the Chairman of the board of statutory auditors;
- to adapt this system to the dynamics of the operating conditions and the legislative and regulatory context;
- to report, on a timely basis, to the board of directors any problems and critical issues that have arisen in the performance of his/her activity or which has come to his/her attention, so that the board may take appropriate steps.

The Chief Risk Officer (CRO) reporting to the Director in charge of the internal control and risk management system is the reference point for the development of the company's risk-oriented culture and sets out risk management methods. The CRO is responsible for ensuring the recognition and identification of the main corporate risks, by identifying the method designed to facilitate risk analysis, evaluation and monitoring, through regular risk removal, reduction, transfer or retention activities.

As the head of the risk management work group, the CRO ensures therefore governance of the risk management process, by coordinating the plan of prevention actions aimed at ensuring ongoing business, by monitoring the effectiveness of the remedies adopted through an audit plan based on the indications entered in the risk registers.

The risk management process is implemented in view of the continuous improvement through a risk monitoring process consisting of four stages:

- analysis: set of activities aimed at identifying and describing the risks to which the company is exposed;
- assessment: set of activities aimed at assessing the quality and quantitative level of the company's risk exposure;
- management: set of activities aimed at selecting and implementing any actions that are deemed to fulfil the objective of reducing the risks within the acceptable limit, by checking its effectiveness against expected results;
- information: set of activities aimed at structuring the internal and external communication system in relation to the analysis carried out and the results obtained.



The risk management process involves each one of the *Risk Owners* (ROs), in charge of risk management for the area under their purview in the performance of their functions; the ROs identify, assess and put in place the corrective actions for risk mitigation, while also monitoring them.

Each RO may arrange a “function team” to be supported in this activity. This team shall have a *team leader*, who may be the RO or a person designated by the RO.

The ROs are responsible for completing the risk reporting sheets, as well as for completing and updating a risk register specifically related to their function.

As the CRO is required to report on a regular basis to the board of directors, the ROs are required to send to the CRO a quarterly report on their activity for the management of risks falling under their responsibility.

INTERNAL AUDITOR

The inclusion of an Internal Audit function, in charge of a verification program on the functionality and adequacy of the corporate control and risk management system, is currently being defined

ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL

In implementation of Legislative Decree no. 231 of 8 June 2001 - which introduced in the Italian legal system the principle of administrative accountability in criminal proceedings for the companies for specific types of crimes committed by its directors, managers or employees in the interest or to the advantage of the companies - the board of directors adopted, on 11 December 2003, an Organisational, Management and Control Model.

On 19 December 2013 the board of directors adopted the updated and supplemented version of the Organisational, Management and Control Model as a result of the development of the reference legislative framework, of organisational changes within the company, and to take account also of recent case law and the application experience accrued since the model was first adopted.

The Model constitutes a further qualifying element of the company's and Group's Internal control system and is organised as follows:

- **Title I**, containing a description of the legislative framework in force (chapter 1). The data and information are updated to the Model approval date and are merely for description purposes.
- **Title II**, describing the constituent elements of the Model:
 - a short description of the Model;
 - the process for the identification of activities that are potential crimes pursuant to Legislative Decree no. 231 of 2001 and for the definition of control standards;
 - the features and powers of the Supervisory Body;
 - the features of the disciplinary system that is suitable to sanction the failure to comply with the measures specified in the Model;
 - the definition of principles adopted for staff communication and training.
- **Title III**, containing the implementation elements of the Model:
 - the Code of Conduct;
 - the disciplinary system.
- **Appendices to the Model:**
 - Key of crimes;
 - crimes against the Public Administration: risk analysis and control standards;
 - corporate crimes: risk analysis and control standards;
 - other crimes: risk analysis and control standards;
 - Legislative Decree 231/2001 text.



SUPERVISORY BODY

The Supervisory Body was appointed in implementation of Legislative Decree no. 231/2001 and set up as a board on 29 December 2018. It is autonomous and independent from the other Internal Control bodies. Following the latest amendments to the Development Decree and Stability Law 2012, whereby the members of the board of statutory auditors may also feature as members of the Supervisory Body, MAG set up a body composed of three members coinciding with the members of the board of statutory auditors:

- **Rocco Di Leo – Chairman**
- **Luisa Marzoli**
- **Guido Riccardi**

In compliance with the provisions of Legislative Decree 231/01 and as later amended and supplemented the board of directors has conferred to the Supervisory Body the broadest initiative and control powers in order to ensure timely and effective supervision of the functioning of and adherence to the Model, by authorising free access for the body at all corporate functions for the purpose of obtaining the information and the data deemed necessary to fulfil the duties assigned to it.

In particular, and by way of example, the Supervisory Body was conferred the following tasks and duties, to be carried out, where necessary, with the collaboration of the other corporate functions and of external advisers with full economic autonomy, including through the definition of specific budget items:

- to oversee the compliance with the Model prescriptions by the persons concerned and report any breaches and the sectors that are more likely to be at risk, taking into consideration the breaches that have occurred;
- to oversee the real effectiveness and the actual ability of the Model to prevent the crimes as per Legislative Decree 231/01, as later amended, as regards the single corporate structures and the actual activity performed;
- to ensure retention over time of the solidity and functionality requirements under the Model;
- to oversee on the opportunity to update the Model, if the needs for adjustment arise in connection with changes to the legislative conditions or related to the corporate circumstances;
- to obtain the documentation and information from the various corporate functions and carry out periodic controls and targeted checks on activities involving risk;
- to promote information and training initiatives on the principles, values and rules of conduct included in the Model.

The Supervisory Body regularly reports to the board of directors with regard to the activity carried out, the functioning of the Model or specific situations.

In order to perform its function, autonomously and independently, the Supervisory Body has autonomous spending powers based on an annual cost estimate, approved by the board of directors as proposed by the Supervisory Body. The Supervisory Body may use resources that exceed its spending powers in the event of extraordinary and urgent situations, that will be discussed in a later report.

The functioning of the Supervisory Body is described in the relevant Rules of the By Laws.

THE MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

The board of directors on 16 July 2015 approved, with the favourable opinion of the board of statutory auditors, the proposal to implement the establishment and appointment of the "Manager responsible for preparing the company's financial reports" in accordance with Law 262/2005 and, in particular, with article 154-bis of Legislative Decree no. 58/1998, whereby the by-laws has been amended accordingly.

In particular, the board approved the proposal to:

- start the process for compliance with the reference regulations to establish the role of the Manager responsible for preparing the company's financial reports;
- formalise the Rules for such Manager where in procedural-organisational terms the following shall be regulated:



- o roles and functions of such Manager as discharged in relation to the activities and responsibilities attributed to the Manager pursuant to the law. In particular, the rules must clearly detail the powers to be conferred by such appointment, in terms of expenditure and use of internal resources and corporate functions, with particular reference to the “Administrative Processes” and “Administration and Group Financial Reporting” as regards the definition, implementation and monitoring activities and with reference to “Internal Audit” for checking the correct application of the procedures;
- o the main data flows and coordination methods of the activities between such Manager, the boards of directors, control boards, and corporate functions;
- verify the definition of the operational Model as regards the methods for monitoring adequacy of administration-accounting procedures and for checking actual implementation thereof.

The Board of Directors appointed the Manager responsible for preparing the company's financial reports on 28 December 2015, lately updated on 29 December 2018

BOARD OF STATUTORY AUDITORS

The board of statutory auditors of MAG S.p.A. is composed of three standing statutory auditors and two alternate statutory auditors and its term lasts three years, until the date appointed for the shareholders' meeting for the approval of the financial statements related to the third year in office and may not be re-appointed.

The current board of statutory auditors was appointed with resolution passed at the shareholders' meeting on 20 January 2020 and is now made up of:

- **Rocco Di Leo – Chairman**
- **Luisa Marzoli – Standing statutory auditor**
- **Guido Riccardi – Standing statutory auditor**
- **Giovanni Tedeschi – Alternate statutory auditor**
- **Daniela Caminiti – Alternate statutory auditor**

Below are the provisions of article 20 of the by-laws concerning the methods for appointing the statutory auditors based on lists; these provisions have been in force since 24 September 2009.

Article 20 of the by-laws:

“20.1 The shareholders' meeting shall, in compliance with applicable law, appoint 3 (three) standing statutory auditors and 2 (two) alternate statutory auditors based on the lists filed by the shareholders in the manner and according to the procedure described below:

- (a) in every list the candidates must be sorted through progressive numbering;
- (b) the lists shall be filed at the company's offices at least 5 (five) days before the day appointed for the shareholders' meeting at first call. Within this time limit, together with each list, candidates' curriculum vitae shall be filed, as well as the list of the administration and control positions held by them in other companies and the declarations with which candidates accept their candidacy and state, under their responsibility, that there are no grounds for disqualification and incompatibility, and that they fulfil the requirements prescribed by applicable regulations and the by-laws for such office;
- (c) each shareholder may only file or contribute to the filing of one list and each candidate may only run in one list under penalty of disqualification;
- (d) only the shareholders that on their own represent at least 10% of the voting shares within the ordinary shareholders' meeting are entitled to file their lists;
- (e) each shareholder with voting rights may only vote one list;
- (f) where multiple lists are filed, for the purposes of appointing the members of the board of statutory auditors the procedure is as follows:
 - (i) the votes obtained by each list are divided by one, two, and three and so forth depending on the progressive number attributed to candidates to be appointed.
 - (ii) the ratios thus obtained are progressively assigned to each list in the order specified therein and are then ranked in decreasing order;



- (iii) the candidates receiving the highest ratios will be appointed;
 - (g) at least one standing statutory auditor shall be taken from the minority list that has received the highest number of votes. As a result, in the event that the three highest ratios are obtained by candidates all belonging to majority lists, the last standing statutory auditor to be appointed is however taken from the minority list that has obtained the highest number of votes, although he/she had received a lower ratio than the majority candidate with the third highest ratio;
 - (h) where multiple candidates have received the same ratio, the candidate from the list that has not yet appointed any statutory auditors shall be appointed that is, where all lists have appointed the same number of statutory auditors, the candidate of that list receiving the highest number of votes shall be appointed. In the event of the same number of votes for a list and always with equal ratio a new poll is taken by the shareholders whereby the candidate receiving the simple majority of the votes shall be appointed.
- 20.2 In the event of substitution of one standing statutory auditor, the alternate statutory auditor belonging to the same list as that to be replaced shall take over.
- 20.3 The board of statutory auditors shall be chaired by the standing statutory auditor that was the first to be appointed in the list that received the highest number of votes.
- 20.4 Where only one list is filed, the candidates therein listed according to the specified progressive number shall be appointed as standing and alternate statutory auditors, if the list has received a percentage of votes equal to the majorities required by law for the appointment of corporate bodies. Where no lists are filed, the board of statutory auditors, including its Chairman, shall be appointed by the shareholders' meeting with statutory majorities.
- 20.5 The ordinary shareholders' meeting shall determine the remuneration for each standing statutory auditor, upon their appointment.
- 20.6 The statutory auditors shall remain in office 3 (three) years, their term shall expire at the date of the shareholders' meeting called to approve the financial statements for the third year of their term. They may be re-appointed.
- Should a person cease to serve as statutory auditor for expiration of the term, termination shall take effect from the time when the board has been composed again."

The statutory auditors are chosen among people who may qualify as independent, including according to the criteria as per the Corporate Governance Code of Borsa Italiana S.p.A. of July 2014.

The statutory auditor who, directly or indirectly, has an interest in a given transaction of the company shall provide prompt and comprehensive disclosure to the other statutory auditors and the Chairman of the board of directors as regards the nature, time limit, origin and extent of such interest.

As part of its activities, the board of statutory auditors oversees on the independence of the audit firm by checking compliance with the applicable regulatory provisions.

The board of statutory auditors attends all meeting of the board of directors and, therefore, is informed about the company's business on a timely and continuous basis. All the documentation as from time to time reviewed by the board of directors at its meetings is simultaneously transmitted and submitted to the board of statutory auditors.

The board of statutory auditors and the *Chief Risk Officer* promptly exchange any information that is important to discharge their respective tasks.

Cross-directorship reporting concerning the members of the board of statutory auditors

No specific guidelines have been set forth as to the maximum number of positions that may be held in other companies by board of statutory's members. Also in line with the criteria underpinning the application of the Corporate Governance Code, they will accept a position because they think they can devote the necessary time to perform their task with due diligence, also taking into account the commitment involved in their occupational activities.



AUDIT FIRM

With resolution passed by the shareholders' meeting on 27 December 2013, following a reasoned proposal expressed by the board of statutory auditors pursuant to article 13.1 of Legislative Decree no. 39/2010, the audit firm KPMG S.p.A. was hired to perform the statutory audit of the financial statements and the consolidated financial statements, as well as to perform any other activities as per article 14 of Legislative Decree no. 39/2010.

Below is a summary of the assignment letter for the statutory audit of accounts:

"In particular, the statutory audit implies verifying:

- that the financial statements and the consolidated financial statements of Mecaer Aviation Group S.p.A. comply with the drafting standards and give a true and fair view of the balance sheet and income statement for the year;
- that over the year, corporate accounting books are properly kept and that any data concerning operations is properly documented in the accounting records of Mecaer Aviation Group S.p.A..

Furthermore, pursuant to article 14.2 e) of the Decree, the statutory audit implies the review of the consistency between the reports on operations with the financial statements and the consolidated financial statements. These reviews end with KPMG issuing an auditing report.

The statutory audit of the financial statements is carried out by reference to the balance sheet and income statement forms and the notes to the financial statements; the statutory audit of the consolidated financial statement is carried out by reference to the statements of financial position, comprehensive income statement, changes in equity, cash flows and to the relevant notes, drafted according to the reference accounting standards as approved by the competent board of directors of the Company.

The statutory audit is aimed at obtaining every element that may be necessary to determine whether the financial statements and the consolidated financial statements contain significant errors (as deriving from fraud or unintentional conduct or events) and, as a whole, are reliable. The auditing process entails obtaining and reviewing, based on spot checks, the evidence with respect to the balances and the important information set forth in the financial statements and the consolidated financial statements as well as the evaluation of the adequacy and correctness of the accounting standards adopted and the acceptability of the estimates provided by the directors upon drafting them.

The statutory audit of Mecaer Aviation Group S.p.A. financial statements also includes the performance of auditing and/or review procedures for the financial statements of subsidiaries and associates as detailed below:

Subsidiaries

S.A.T. S.p.A.

Mecaer Aviation Group Inc.

Mecaer America Inc.

Type of position

Statutory audit

Budgetary analysis

Procedures for reviewing the accounting audit carried out by other auditors (BDO International Ltd.)

The analysis of the Internal Control system, as required by the reference auditing standards, is based on samples and it is only aimed at determining the nature, extent and frequency of the reviews for the purposes of the statutory audit of the financial statements.

Statutory audit of financial statements and consolidated financial statements - Applied methodology.

The auditing procedure implies the use of a methodology developed by KPMG at international level and aligned with the reference accounting standards.

In particular, the auditing process was organised with some interrelated stages:

- planning analysis and assessment of the system of internal controls implemented by the company ("*Risk assessment*");
- implementation of the planned auditing procedures ("*Testing*");
- completion of the auditing process ("*Completion*").



- The planning analysis include the following activities:
- knowledge of the company's and Group's activities, of their sector, of the general economic conditions affecting them, the achieved and expected financial performance and economic results;
- preliminary analysis of the accounting standards applied in preparing financial statements and the consolidated financial statements;
- identification of financial statement items and of the reporting that is deemed significant, and preliminary identification and evaluation of any associated error risks in the financial statements and the consolidated financial statements.

The activities implemented by the company for internal control system evaluation are designed to analyse the procedures for the recognition of transactions and those for drawing up the financial statements and the consolidated financial statements.

Knowledge of the foregoing helps determine the auditing procedures to be applied, on a sample basis, in order to obtain sufficient evidence to express an opinion on the reliability of financial statements and consolidated financial statements, and, therefore, complete the auditing process.

The auditing procedures, among other things, include, where applicable:

- selecting and sending letters to third parties (e.g. customers, suppliers, banks and financial institutions, group's companies, third parties depositaries, lawyers and tax consultants);
- participation in physical warehouse inventories;
- physical check of the cash in hand and securities in the portfolio;
- as regards the consolidated financial statements, planning and coordination of the auditing activity with that performed by other audit firms as well as the review of the consolidation area and of the common accounting standards to be applied within the Group.
- As regards review procedures for purposes of expressing an opinion on the consistency of the reports on operations with the financial statements and the consolidated financial statements, in accordance with the reference auditing standard, the following activities are performed:
- reading the report on operations;
- cross-checking the financial data (as defined in the above mentioned auditing standard) with the financial statements, with the details used to prepare them, with the general accounting system and the accounting entries.

Review of duly corporate bookkeeping and correct recognition of any events concerning operations in the accounting records of Mecaer Aviation Group S.p.A. - list of the main review procedures.

This activity entails regular reviews to be carried out approximately on a quarterly basis, unless specific circumstances require more frequent reviews.

The work carried out during periodic reviews includes, but is not limited to, the following activities:

- updating the analysis of the level of reliability of the administration-accounting system and the associated internal control system with respect to key aspects for auditing purposes, as such level helps determine the nature, extent, and timing of applicable procedures;
- review of the update of mandatory accounting books;
- spot check of the existence of formal documents related to any tax and social security requirements that have been fulfilled and of documents proving payment of the relevant charges and contributions;
- execution of spot surveys to verify whether the transactions of the operations are recognised in the accounting records in conformity with the procedures established by the administration-accounting system and the associated internal control system of the company;
- review of successful rectification of any errors and anomalies as may be detected during the surveys conducted as part of previous reviews;
- spot check of cash and cash equivalents and title deeds;
- reading company books;
- reading any remarks and any complaints transmitted by the supervisory authorities;
- analysis of key accounting or management indicators or obtaining the periodic accounting situation for the current year, if any, and performing financial statements analysis;
- interviews with the company's management in order to obtain information on transactions and significant events occurred over the period;
- interviews with the board of statutory auditors and, in particular, inquiring about the outcomes of the



- supervisory activity performed by this board;
- documental evidence of any transactions that were particularly significant or involving specific risks.

INVESTOR RELATOR

With resolution of the board of directors on 29 December 2018, Mr. Valerio Pasqua was appointed Investor Relator.

This function is responsible to manage the relationships with institutional investors and with the shareholders in general and is constantly in contact with them as to every decision that may affect their investment, by providing all the information and documents on the topics on which shareholders are required to comment.

PROCESSING OF COMPANY'S INFORMATION

The company's administration and control system is based on periodic and systematic data flows between the various company departments. Such flows are supported by reporting systems compliant to Group principles and standards and rely on advanced and integrated IT systems (ERP). All Group companies adopt single integrated accounting systems.

In accordance with the respective deadlines and methods established in the by-laws, corporate governance model and other internal documents, such as procedures and instructions, each body reports to its superior body on the activities it has performed in the reporting period and those that it has planned for the subsequent period, along with any observations and recommended steps.

Procedure and provisions related the processing of company's information towards the outside with reference to the management and disclosure to the market of insider information, to the register of people who are entitled to access insider information and internal dealing.

SHAREHOLDERS' MEETING

The functioning of the shareholders' meeting is outlined in Title III of the by-laws.

As regards the calling, exercise of the voting right, establishment of the shareholders' meeting and participation in the shareholders' meeting, as well as shareholders' meeting resolutions please refer to the following articles of the by-laws:

- article 9 for the method used to call the shareholders' meeting:
 - the shareholders' meeting is called by the board of directors by notice, published on the Italian Official Gazette or on the following newspapers: "Corriere della Sera" or "Il Sole 24 Ore" at least fifteen days before the day fixed for the meeting. The notice shall give information as to the day, time and venue of the meeting and the agenda of transacted business, and any second meeting called. If the newspapers have discontinued publications, the notice shall be published in the Italian Official Gazette.
 - The shareholders' meeting may also be called by notice transmitted to the shareholders by registered mail with return receipt, or telegram or another means providing evidence of successful receipt, at least 8 (eight) days prior to the shareholders' meeting.
 - Any shareholders' meetings that are not called as per above are still valid, if the whole share capital is represented and are attended by the majority of the members of the boards of directors and control boards.
- article 10 with reference to the voting right at shareholders' meeting:
 - every shareholder is entitled to at least one vote at the shareholders' meeting; if the share value is a multiple of €1 (one), the shareholder is entitled to one vote for each share.



- article 11 with reference to the establishment of the shareholders' meeting and the entitlement to attend shareholders' meeting:
 - unless otherwise regulated by the by-laws, attendance of the shareholders' meeting is as provided by law. The Chairman of the shareholders' meeting is responsible for ascertaining the right to attend the shareholders' meeting.
 - every shareholder with right to attend the shareholders' meeting may be represented by proxy conferred in writing, after complying with the provisions of article 2372 of the Italian Civil Code. Attendance of the shareholders' meeting, both ordinary and extraordinary, may be via audio-video systems provided that the plenary methods and the principles of good faith and equal treatment of the shareholders are complied with.
 - in particular, correct establishment of the shareholders' meeting shall imply that:
 - the Chairman may verify the identity and the entitlement of the attendees, manage the running of the meeting, verify and disclose poll results;
 - the minute taker may adequately hear the shareholders' meeting events to be recorded;
 - the attendees may participate in the discussion and the parallel poll on the items on the agenda, as well as viewing, receiving and transmitting any documents;
 - the notice convening a meeting shall indicate the venues connected via audio/video systems as arranged by the company, to which the attendees may be directed, as the meeting is due to take place where the Chairman and the minute taker are present.
- article 12 concerning the adoption of resolutions by the shareholders' meeting:
 - adoption - with the favourable vote of least 85% (eighty-five) of the share capital of the company present at shareholders' meeting - of the resolutions of the ordinary shareholders' meeting discussing the following topics:
 - (a) approval of the company's financial statements and of the relevant documentation attached thereto, within the limits established in article 2369.4 of the Italian Civil Code;
 - (b) designation of the company entrusted with auditing the financial statements and setting the relevant fees;
 - (c) distribution of reserves and dividends;
 - (d) approval or amendment of the decisions adopted by the board of directors on the topics listed in article 16 (a) to (q) of these by-laws;
 - (e) setting the overall remuneration for the members of the board of directors;
 - (f) exercise of the action for non-contractual liability towards directors, statutory auditors, general managers and liquidators, as well as waivers and/or transactions related thereto;
 - (g) repurchase or sale of treasury shares;
 - (h) any resolutions pertaining to a procedure for listing the company's securities on the regulated market;
 - (i) issuing of bonds.
 - Adoption by favourable vote of at least 85% (eighty-five) of the share capital of the company for all resolutions of the extraordinary shareholders' meeting of the company.

The company has currently no set of rules for shareholders' meetings as it deems that the powers that are vested in the Chairman of the shareholders' meeting, who is responsible for managing its proceedings, including determining the voting order and system, allow the Chairman to ensure an orderly conduct of the shareholders' meeting, preventing any risks and inconveniences that may result from failing to comply with such regulations.

Upon opening the proceedings, the Chairman of the shareholders' meeting shall always invite the shareholders to provide adequate and relevant comments on the items on the agenda and specify that all shareholders should be able to express their opinions.