



# **ORGANISATION AND MANAGEMENT MODEL**

**OF**

**VELAN ABV S.r.l.**

**GENERAL PART**

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## 1. LEGISLATIVE DECREE NO. 231 DATED 08 JUNE 2001, CONCERNING THE ADMINISTRATIVE LIABILITY OF LEGAL ENTITIES, COMPANIES AND ASSOCIATIONS, INCLUDING THOSE WITH NO LEGAL ENTITY

### 1.1 The Administrative Liability of Legal Entities

Legislative Decree no. 231 dated 08 June 2001, enforcing Delegated Law no. 300 dated 29 September 2000 introduced in Italy the “*Regulation of the administrative liability of legal entities, companies and associations, including those with no legal personality*” (hereafter, in short, also “**Leg.D. no.231 of 2001**”, or “**Decree**”), which fits within a broader legislative process to fight corruption and updates the Italian regulations concerning the responsibility of legal entities to some International Conventions previously signed by Italy.

Thus, Leg.D. no. 231 of 2001 establishes a regime of administrative liability (similar in essence to penal liability) borne by legal entities<sup>1</sup> (hereafter, in short, the “**Entity/Entities**”), which is added to the liability of the natural person (better described hereafter) committing the crime, and which aims at involving the Entities in whose interest or advantage such crime was carried out. Such administrative liability is valid only for crimes strictly listed in the same Leg.D. no. 231 of 2001.

Furthermore, Article 4 of the Decree specifies that in some cases and according to the conditions set out in articles 7, 8, 9 and 10 of the Criminal Code, the administrative liability of Entities that have their headquarters in the territory of the State for crimes committed abroad by natural persons (as better specified below), as long as the State where the criminal offence was committed does not take direct legal action against such Entities.

### 1.2 The entities subject to Leg.D. no. 231 of 2001

The subjects that, committing a crime in the interests or advantage of the Entity, can determine its liability are listed below:

- (i) natural persons who occupy apical positions (representation, administration or management of the Entity or of one of its organisational units with financial and functional autonomy or persons who, de facto, exercise the management and control; hereafter, in short, the “**Top Managers**”);
- (ii) natural persons under the management or supervision of one of the Top Managers (hereafter, in short, “**Parties subject to management by others**”).

In this regard, it is useful to note that it is not necessary that Parties subject to management by others have employee status within the Entity, as such notion comprises also “*those workers that, even though they are not <members of staff > of the entity, have with it a type of relation engendering what can be considered a duty to supervise them, by the top management of the entity itself: think, for example, of agents, partners in joint-venture operations, the so-called insourcing in general,*

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<sup>1</sup> Art. 1 of Leg.D. no. 231 of 2001 delimited the scope of the regulation's recipients to “*entities with legal personality, companies and associations, including those with no legal personality*”. In light of the above, the regulations apply to:

- Private entities, i.e. entities with legal personality and associations “including those with no” legal personality;
- Public entities, i.e. entities with public entity statuses, but with no public powers (so-called “public institutions of industrial and commercial nature”);
- Entities with a mixed public/private entity status (so-called “mixed companies”).

Conversely, the following are excluded from the set of recipients: the State, public regional authorities (Regions, Provinces, Municipalities and mountain communities), public institutions with no economic concerns, and, in general, all entities that perform functions of constitutional importance (Chamber of Deputies, Senate of the Republic, Constitutional Court, General Secretarial Office of the President of the Republic, the Magistrates' governing body, etc.).

*distributors, suppliers, consultants and collaborators*<sup>2</sup>.

Indeed, according to prevailing legal theory thought, those situations in which the completion of a particular task is entrusted to external collaborators, under the administration or supervision of Top Managers, are of importance in relation to the administrative liability of the entity.

It is nevertheless appropriate to reiterate that the Entity is not liable, by explicit legislative provision (article 5, paragraph 2 of the Decree), if the aforementioned individuals acted in their own interest or in the interest of third parties. In any event, their behaviour has to be ascribable to the “organic” relation according to which the actions of the natural person can be charged to the Entity.

### **1.3 The liable offences**

Art. 2 of Decree 231/2001 lists in detail the crimes for which the administrative liability of the Entity is contemplated, and the relative sanctions; the liability for an administrative offence can be charged to the Entity only in the presence of an event that is explicitly contemplated as crime and sanctioned by an ordinary law entered into force before the unlawful act was committed.

The third section of Decree 231/2001 then examines the cases of administrative liability for crimes contemplated by the criminal code: further liability scenarios were then added to the original articles 24 and 25 that comprised the section, with subsequent changes to the law.

The crimes warranting the enforcement of Decree 231/2001 are summarised in Document no. 1, and the procedures for their update are described in § 2.3 of this Model.

### **1.4 Sanctions set out by the Decree**

Leg.D. no. 231 of 2001 sets out the following types of sanctions enforceable to the entities who are governed by this regulation.

- (a) Monetary administrative sanctions;
- (b) interdictory sanctions;
- (c) confiscation of the value or of the profit of the crime;
- (d) publication of the ruling.

#### **1. MONETARY SANCTIONS**

Monetary sanctions are governed in articles 10, 11 and 12 of Decree 231/2001 and are applicable to all offences committed by the Entity; they are imposed in instalments, which need to be more than one hundred and less than a thousand, while the amount of each instalment goes from a minimum of €258.23 to a maximum of €1,549.37.

The commensurate penalty criterion is organised as a two-stage procedure: first, the number of instalments within the range predefined by the individual type of liable offence, then the definition of the amount of the individual instalment; the penalty is thus the result of the multiplication of the two factors.

The judge establishes the number of instalments by taking into account the severity of the case, the degree of responsibility of the Entity as well as the operations undertaken in order to eliminate or attenuate the consequences of the case and to prevent the perpetration of further offences. Conversely, the amount of the instalment is set based on the economic and financial conditions of the Entity, in order to ensure the efficacy of the sanction (art. 11 of Decree 231/2001).

<sup>2</sup> Thus, verbatim: Assonime Memorandum no. 68, dated 19 November 2002.

## 2. INTERDICTIONARY SANCTIONS

Interdictory sanctions, not less than three months in length and not longer than two years, focus on the specific activity to which the Entity's offence refers to, and comprise:

- interdiction to perform the activity;
- prohibition to make deals with the Public Administration;
- suspension or revocation of authorisations, licenses or concessions instrumental in the perpetration of the offence;
- exclusion from special terms, loans, contributions and subsidies, and/or the revocation of any that might have been already awarded;
- prohibition against advertising goods or services.

Interdictory sanctions apply only to crimes for which they are explicitly contemplated and in the presence of specific conditions, indicative of the particular severity of the case or of the high degree of danger posed by the entity.

The judge establishes the type and duration of interdictory sanctions by taking into account the severity of the case, the degree of responsibility of the Entity, and the operations undertaken by the Entity in order to eliminate or attenuate the consequences of the case and to prevent the perpetration of further offences. Instead of enforcing the sanction, the judge can decree the continuation of the Entity's operations under a court-appointed receiver.

Interdictory sanctions can be applied to the Entity as a precautionary measure when serious indications of liability in the perpetration of the crime are found, and there are well-founded elements leading to believing there is real danger that offences might be committed that are similar to the one for which legal proceeding are being taken (art. 45). Also in this case, instead of the interdictory precautionary measure, the judge can appoint a court-appointed receiver.

## 3. PUBLICATION OF THE RULING

Art. 18 of Decree 231/2001 sets out that it can be resolved to publish the ruling when an interdictory sanction is applied to the entity: the publication is arranged by the judge's court registry, but is paid for by the entity.

## 4. CONFISCATION

Art. 19 of Decree 231/2001 decrees that confiscation of the value or of the profit of the crime is always ruled to the entity with the conviction sentence, except for the part that can be returned to the injured party.

Confiscation can be decreed also for something of equal value.

### 1.5 Inchoate offences

In the event inchoate offences specified in the Decree are perpetrated, monetary sanctions (in terms of amount) and interdictory sanctions (in terms of time) are reduced to between a third and half depending on the forms of the attempt, while the imposition of sanctions is excluded in the cases in which the Entity voluntarily impedes the act from being carried out or the event from taking place (article 26 of the Decree).

## 1.6 Actions Warranting Exemption

Articles 6 and 7 of Leg.D. no. 231 of 2001 set out specific forms of the Entity's exemption from administrative liability for the crimes perpetrated in its interest or to its advantage by both Top Managers and Parties subject to management by others (as defined in the previous paragraph 1.2).

In particular, in the case of crimes perpetrated by Top Managers, article 6 of the Decree contemplates exemption were the Entity to demonstrate that:

- a) before the act was perpetrated, the executive body adopted and implemented effectively a model of organisation and management suitable to prevent crimes like the one that took place (hereafter, in short, the **"Model"**);
- b) the task of supervising the functioning of and compliance with the Model as well as of managing its update was entrusted to a body within the Entity (hereafter, in short, the "Supervisory Board" or "SB"), with autonomous powers to take initiative and monitor;
- c) the people that have committed the crime have acted by fraudulently circumventing the Model;
- d) there has not been a case of omitted or insufficient surveillance by the Supervisory Board.

As for what the Parties subject to management by others are concerned, article 7 of the Decree contemplates the exemption from liability if, before the crime was perpetrated, the Entity had adopted and implemented effectively a Model that is suitable to prevent crimes like the one that took place.

The Entity's liability exemption is however not established by the simple adoption of the Model, but rather by its effective execution to be performed through the implementation of all the protocols and controls necessary to limit the risk the crimes that Company intends to avert are committed. In particular, with reference to the Model's features, the Decree explicitly sets out in article 6 paragraph 2 the following preparatory phases to a correct implementation of the Model itself:

- a) identification of the activities in whose context there is the possibility that crimes are committed;
- b) provision of specific protocols aimed at planning the creation and execution of the Entity's decisions in relation to the crimes to be prevented.
- c) identification of procedures to manage financial resources that are suitable to prevent the perpetration of such crimes;
- d) provision for the obligation inform the Supervisory Board;
- e) introduction of a disciplinary system suitable to sanction the failure to follow the measures specified in the Model.

## 1.7 Guidelines

Upon explicit instruction of the delegated Legislator, Models can be adopted based on behavioural codes drafted by representative associations in the sectors, and communicated to the Ministry of Justice, who, together with the competent Ministries, can, within 30 days, provide observations on the suitability of the models to prevent crimes.

The preparation of this Model is inspired by the Guidelines<sup>3</sup> for the creation of organisational, management and supervisory Models pursuant to Leg.D. no. 231 of 2001, approved by the General Confederation of Italian Industry (Confindustria) on 07 March 2002 and subsequently updated (hereafter, in short, jointly referred to as “**Guidelines**”).

The process indicated by the Guidelines to elaborate the Model can be outlined according to the following fundamental items:

- identification of risk areas, aimed at verifying in which corporate areas/sectors it is possible to commit crimes;
- setup of a control system able to reduce risks through the adoption of appropriate protocols. To this effect, a coordinated set of organisational structures, activities and operational rules is put in place, enforced, upon instruction of the top management, by managers and consultants, aimed at providing reasonable security with regard to reaching the aims falling within a good internal control system.

The most important components of the preventive control system proposed by the Guidelines issued by Confindustria are, with regard to the prevention of intentional crimes:

- the Code of Ethics;
- the organisational system;
- manual and informatics procedures;
- powers of signature and of authorisation;
- the monitoring and management system;
- communication to staff and staff training.

With reference to crimes of negligence (crimes concerning health and safety at work and - even though subsequent to the issue of the Guidelines - the majority of environmental crimes), the most important components identified by Confindustria are:

- the Code of Ethics (or of behaviour) with reference to the crimes being considered;
- the organisational structure;
- training and preparation;
- communication and engagement;
- operational management;
- the safety monitoring system.

The control system must be based on the following principles:

- verifiability, documentability, coherence and congruence of each operation;
- separation of functions (nobody can autonomously manage all phases of a process);
- documentation of controls;
- introduction of an adequate penalty system for violations of the regulations and protocols set out in the Model;
- identification of a Supervisory Board in which the main requirements are:
  - autonomy and independence,
  - professionalism,
  - continuity of action;
- duty of corporate functions, and especially those identified as having a greater “crime risk” to provide information to the Supervisory Board, both on a structured basis

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<sup>3</sup> cf. Confindustria “Guidelines for the construction of organisational, management and supervisory models”, updated as at July 2014.

(periodical information enforcing the Model itself), and to report anomalies or atypical events found within the information available.

## **2. THE MODEL**

### **2.1 Velan ABV S.r.l.**

Velan ABV S.r.l. (hereafter, in short, “**Velan**” or the “**Company**”), operates in the metalworking and mechanical engineering sector in the production of valves for the main applications concerning the energy sector (Oil&Gas).

In particular, the business purpose of the Company includes:

- the operation of engineering workshops through the planning, production and sale of valves and reducers in general;
- retail and wholesale of valves;
- provision of maintenance and repair services, and other services connected to the products marketed.

### **2.2 Adoption of the Model in the context of Velan Inc. Group**

This Model was elaborated based on the principles contained in the Guidelines and in the Code of Ethics of the Parent company, whilst respecting the autonomy granted to each company belonging to the Group.

The Company communicates the adoption of the Model to the Parent company, together with any subsequent Model amendments it deems appropriate to make.

In harmony with the principles of autonomy and responsibility ascribed to each company of the Group, the Company:

- institutes its own Supervisory Board;
- defines the relations of assistance and collaboration with the Management of the Parent Company;
- it strives to ensure that duties of loyalty and confidentiality are met in the mutual assistance and collaboration between Velan's Supervisory Board and the management of the Parent Company.

### **2.3 The Model**

#### **2.3.1 Aims of the Model**

The Model prepared by the Company based on the identification of the areas of possible risk in the company's business, within which it is believed that the chance crimes are committed is higher, has the following aims:

- set up a prevention and monitoring system aimed at reducing the risk that crimes connected to the company's business are committed;
- make everyone working in the name or on behalf of Velan, and in particular those involved in “areas with risk-prone activities”, aware that, were they to violate the provisions set therein, they might cause a punishable offence, on a criminal and administrative level, against not only them but also the company;
- inform all those who operate with the Company that the infringement of the requirements
- contained in the Model would result in the enforcement of specific sanctions or the end of the contractual relationship;

- confirm that Velan does not tolerate unlawful behaviour of any kind, regardless of any aim, and, in any case, such behaviours (even if the Company might apparently be in a position to reap benefit from these) are nevertheless contrary to the principles from which the business operations of the Company are inspired.

### 2.3.2 Creation of the Model

Following also the instructions contained in the reference Guidelines, the creation of the Model (and the subsequent drafting of this document) took place according to the phases described below:

- (i) preliminary exam of the corporate context by analysing the company's key documentation and the performance of interviews with Velan managers with a knowledge of its structure and activities, in order to define the organisation and the activities performed by various organisational units/corporate functions, as well as the corporate processes in which the activities are divided and their practical and actual implementation;
- (ii) identification of the corporate activities and processes that are “at risk” or - limited to the crimes against the Public administration - “instrumental” in the perpetration of crimes, made based on the above-mentioned preliminary examination of the corporate context (hereafter, in short, jointly described as “**Crime-prone Areas**”);
- (iii) tentative definition of the main possible ways Liable Offences might be perpetrated within individual Crime-prone Areas;
- (iv) detection and identification of the entity's monitoring system aimed at preventing the perpetration of Liable Offences.

### 2.3.3 The concept of acceptable risk

In preparing an organisational and management Model such as this one, one cannot overlook the concept of acceptable risk. Indeed, in order to comply with the provisions set in Leg.D. no. 231 of 2001, it is mandatory to establish a threshold that allows to limit the quantity and quality of prevention measures to be adopted in order to prevent the perpetration of the crime. With particular reference to the sanctioning mechanism introduced by the Decree, the acceptability threshold is represented by the effective implementation of an adequate prevention system, such that it cannot be circumvented but intentionally, i.e., that, for the purposes of excluding the entity administrative liability, all people committing the crime acted by fraudulently eluding the Model and the controls adopted by the Company.

### 2.3.4 The structure of the Model and the key liable offences for the purposes of its creation

The Company intended to set up a Model that would take into consideration its own unique corporate setting, in keeping with its governance system and able to make use of existing controls and bodies.

Thus, the Model is a coherent set of principles, rules and provisions that:

- have a bearing upon the internal functioning of the Company and on the ways in which it relates to the external world;
- regulate the diligent management of a monitoring system for Crime-prone Areas, aimed at preventing the perpetration of, or the attempt at perpetrating, the crimes mentioned in the Decree.

Velan's organisation and management Model is structured in two sections:

- **General section**, containing the core principles of Leg.D. 231/2001, which is set to be shared with all corporate stakeholders through suitable information mechanisms;
- **Special section**, undergoing periodic revision and update according to the outcome of *risk assessment* activities; the documentation concerning this part follows the information flows set out in the Model. The content of the Special Part is restricted to the company. The elements constituting the special part of Velan's Model relate to the following outputs of the risk management process: **Document 1** “*List of liable offences*”; **Document 2** “*Chart of high risk processes / activities by crime category*”; **Document 3** “*Technical datasheets for each potential crime*”.

### 2.3.5 Adoption of the Model

The adoption of this Model is entrusted by the Decree itself to the remit of the executive body (and in particular to the Board of Directors), which is also given the task of adding to this Model any other Liable Offences types newly introduced in Leg.D. no. 231 of 2001.

## 2.4 Documents associated with the Model

The following documents are an integral and substantive part of the Model:

- code of ethics containing the set of Velan’s rights, duties and responsibilities towards the recipients of the Model (hereafter, in short, the “**Code of Ethics**”);
- disciplinary system and relative penalty mechanism to be applied in case the Model is violated (hereafter, in short, the “**Penalty System**”);
- system of delegations and proxies, as well as the documents with the aim of describing and assigning responsibilities and/or tasks to those who operate within the Entity in the Crime-prone Areas (i.e. organisation charts, service orders, job description, competency frameworks, etc.);
- a set of procedures, protocols and internal controls with the aim of ensuring an adequate transparency and accessibility of decisional and financial processes, as well as of the behaviours that must be exhibited by recipients of this Model operating in Crime-prone Areas.

(Hereafter, in short, the above-mentioned set of delegations and proxies, the procedures, protocols and internal protocols will jointly be defined as the “**Procedures**”).

There follows that with the term Model one must intend not only the present document, but also all further documents and Procedures that will subsequently be adopted according to what set out in the Model and that will pursue the aims specified therein.

## 2.5 Management of financial resources

Without prejudice to what specified in the previous paragraph 2.4, taking into account that, pursuant to article 6, letter c) of Leg.D. no. 231 of 2001, amongst other needs it must meet, the Model must also identify the procedures to manage the financial resources suitable to prevent the perpetration of crimes, the Company has adopted specific protocols containing the principles and behaviours to follow in the context of the management of such resources.

## 2.6 Diffusion of the Model

### 2.6.1 Recipients

This Model takes into account Velan’s specific corporate setting and is valid tool to inform and raise awareness amongst Top Managers and Parties subject to management by others (hereafter, in short, the “**Recipients**”).

All this so that Recipients follow correct and transparent behaviour in carrying out their activities, in line with the ethical and social values upon which the Company is based, in the pursuit of its business purpose and nevertheless able to prevent the risk that the crimes contemplated by the Decree are perpetrated.

In any case, the competent corporate functions ensure that the behavioural principles and regulations contained in Velan's Model and Code of Ethics are included in the Company's Procedures.

#### 2.6.2 Training and Information of Personnel

The aim of the Company is to ensure the Recipient's correct knowledge regarding the content of the Decree and the obligations derived from it.

For the purposes of the effective implementation of this Model, the Recipient's training and information is managed by the Human Resources Function in close coordination with the Supervisory Board, together with the managers of the other corporate functions that might be involved in enforcing the Model on each occasion.

The main procedures for conducting the training/information activities necessary also for the purposes of complying with the resolutions contained in the Decree, pertain to the specific information notice at the time employment commences and the further activities considered necessary in order to ensure the correct enforcement of the resolutions set out in the Decree. In particular it established that:

- Entity's directors and representatives: an initial revision training will be carried out, and an information notice will be prepared outlining the supporting documentation available;
- other personnel: an internal information brief will be prepared on the reference principles for the Model and the Code of Ethics and messages will be sent when there is update to the content and implementation of the Model.

The structure of the training course will be approved by the Supervisory Board on each occasion when prompted by the competent corporate function, liaising with the Director of the Protection and Prevention Service (RSPP).

#### 2.6.3 Information to Third Parties and spread of the Model

Velan sees also to the circulation of the Model to those individuals who entertain relations with the Company such as collaborations that are not under the company's management, consultancy relations, agency relations, commercial representation relations and other relations that consist in a professional service not subject to the company's management, both permanent and occasional (including therein also those subjects that act on behalf of suppliers and *partners*, even as a temporary association of enterprises, as well as *joint ventures*) (hereafter, in short, "**Third parties**").

In particular, the corporate functions that are involved on each occasion provide a suitable information notice to Third parties in general and to service companies they interact with, in relation to Velan's adoption of the Model pursuant to Leg.D. no. 231 of 2001.

Specific clauses are inserted in the text of any agreement, aimed at informing Third parties of the adoption of the Model by Velan, which the above entities declare to have seen and to have knowledge of the consequences deriving from the failure to follow the instructions it

contains and contained in the Code of Ethics. The also see to that none of the liable offences are perpetrated by the target individual, nor by its managers or by the people managed by him.

### **3. ELEMENTS OF VELAN'S *GOVERNANCE* MODEL AND GENERAL ORGANISATIONAL FRAMEWORK**

#### **3.1 The Company's governance Model**

Velan is a limited liability company, administered by a Board of Directors that avails itself of a formalised system of delegations of part of its powers and of some directors.

Those directors that have a delegation proceed to managing the corporate business and take care of the general relations with the institution.

The Directors of the Administration/Finance, Manufacturing and Personnel functions have the necessary authority to perform the operations pertaining to each function, which are outlined by the corporate organisation chart, periodically updated.

Following substantial modifications, the document is reviewed by the Personnel Office.

#### **3.2 Velan's internal control system**

Velan has adopted the following general instruments, aimed at planning the training and the implementation of the Company's decisions (also in relation to the crimes to be prevented):

- the ethical principles informing the Company, also based on what set out in the Code of Ethics;
- the system of delegations and proxies;
- the documentation and the provisions pertaining to the company's hierarchical/functional structure and to its organisational structure;
- the internal control system and thus the structure of corporate procedures;
- the procedures concerning the administrative, accounting and reporting system;
- the company's messages and memos addressed to the personnel;
- compulsory, adequate and tailored training of all staff;
- the penalty system set out in the National Collective Labour Agreement (CCNL);
- the national “corpus” of provisions and regulations, and foreign ones when applicable;
- the documentation in place and updated in relation to the Quality Management System;
- the documentation relating to compliance with Bill 98 (so-called “Canadian Sarbanes-Oxley Act”), with the set of risks and controls covering the risks identified within monitoring reports.

#### **3.3 General control principles in all Crime-prone Areas**

In addition to the specific control described in each Crime datasheets (Document 3), attached to the Special Section of this Model, the Company has implemented specific general controls applicable to all Crime-prone Areas.

More specifically, it comprises the following:

- A Powers of signature and of authorisation:** there must exist set rules to exercise the powers of signature and of authorisation within the company;
- B Separation of activities:** there must be a separation of roles between those who perform, those who control and those who authorise;
- C Provisions:** corporate provisions must be in place that are suitable to provide at least the general reference principles to regulate any risk-sensitive activity, in compliance with the current regulations;
- D Traceability:** the relevant individuals and functions and/or the information systems used must ensure the identification and reconstruction of the sources, information elements and controls carried out that support the formation and the implementation of the Company's decisions and the procedures by which financial resources are managed.

#### **4. THE SUPERVISORY BOARD**

##### **4.1 Features of the Supervisory Board**

According to the dispositions of Leg.D. no. 231 of 2001 (articles 6 and 7), as well as to the instructions contained in Confindustria's Guidelines, the features of the Supervisory Board (hereafter "SB") that must be in place in order to ensure the correct and effective enforcement of the Model are the following:

- (a) autonomy and independence,
- (b) professionalism,
- (c) continuity of action.

##### Autonomy and independence,

The autonomy and independence requirements are fundamental in order for the SB not to be directly involved in the management activities that constitute the purpose of its monitoring activity, and thus, not to be conditioned or be subject to interference by the executive body.

Such requirements can be met by granting the SB the highest possible hierarchical rank, and envisaging that it reports to the highest corporate operational entity, i.e. to the Board of Directors in its entirety. For the purposes of independence, it is also indispensable that the SB is not given operational tasks, which would compromise its judgement impartiality with reference to the inspection of behaviours and of the effectiveness of the Model.

##### Professionalism

The SB must have technical and professional competences adequate to the functions it is called to perform. Such features, together with independence, ensure its judgement is objective.

##### Continuity of action

The SB must:

- perform in a continuous manner the activities necessary to uphold the surveillance program enshrined in the Model, with an adequate effort and with the necessary powers of investigation;

- be a structure that refers to back to the Company, in order to ensure due continuity to the surveillance activity.

In order to ensure the effective presence of the previously described requirements, it is necessary that, in addition to the described professional expertise, such individuals have the personal formal requirements that can give further guarantee on the autonomy and independence required by the task (e.g. integrity, absence of conflicts of interest and of family ties with any corporate bodies and with the top management, etc.).

#### **4.2 Identification of the Supervisory Board**

Velan's SB functions can be performed by the Board of Statutory Auditors (pursuant to art. 6 par. 4) or be assigned to a specific body.

In the latter case, the SB can be composed by one or more individuals. If composed by more than one individual, it can have two or three members. If composed by two members, these must not be employed by the company. If composed by three members, at least two of them must not be employed by the company.

Appointment of the SB occurs with a resolution of the Board of Directors, which approves the Model set out in this document. The resolution sets the duration of the post, which in any event is no longer than the end of term of the Board of Directors itself or, were its functions assigned to the Board of Statutory Auditors, not longer than the end of term of the latter.

The SB is dissolved on the date of the Shareholders' meeting held to approve the financial statements relating to the last financial year of its office, even though it keeps performing its function until a new appointment of SB member(s).

The selection of the members must in any event be performed taking into consideration:

- the aims pursued by Decree 231;
- the primary need to ensure the actuality of the controls and of the model, the adequacy of the latter, the upholding of its requirements over time, its updating and modifications;
- the need to ensure the autonomy of the control initiative from any form of interference and/or conditioning by any component of the organisation, ensuring at the same time sufficient continuity of action and, overall, allows to satisfy the requirement of professionalism in relation to the different categories of Liable Offences.

Once in place, the SB sees to set up its own international regulation, as well as setting and updating the plan of the activities to be undertaken.

In order to perform its activities, the SB can avail itself of the collaboration of corporate structures, also created for the purpose in order to perform the activities set out in Model 231.

#### **4.3 Causes for ineligibility and revocation**

The termination of SB's mandate can occur for one of the following reasons:

- end of the mandate;
- voiding of the requirement set out in § 4.1

- in particularly serious cases, the Board of Directors can also decree the suspension of the SB's powers and the appointment of an interim body, after having consulted the Supervisory Authority.

Without prejudice to a re-evaluation of the role and position of the SB based on the experience gathered in implementing the Model, the possible revocation of the specific powers pertaining to the SB can occur only for just cause, with prior resolution taken by the Board of Directors after having consulted with the Supervisory Authority.

To such end, revocation “just cause” should be considered:

- a serious breach of its duties as defined in the Model and in the Statute;
- a sentence of condemnation of the Company pursuant to Decree 231/2001 or a settlement ruling that has become *res judicata*, where the Board showed “lack of or insufficient surveillance”, according to what set out in art. 6, paragraph 1, letter d) of Decree 231/2001;
- A sentence of condemnation or a settlement ruling issued to the Board for having committed one of the crimes set out by Leg.D. no. 231 of 2001 or crimes of similar nature.

In the event of expiration, revocation or renunciation, the Board of Directors promptly appoints the new SB member, while the leaving SB member remains in office until he/she is replaced.

If, during the mandate, a reason for withdrawal were to arise, the SB member must immediately inform the Board of Directors.

#### **4.4 Roles, duties and powers of the Supervisory Board**

In compliance with the instructions provided by the Decree and by Guidelines, the function of the Supervisory Board consists, in general, in:

- monitor the actual enforcement of the Model in relation the various types of crimes taken into consideration by the Model;
- verify the effectiveness of the Model and its real ability to prevent the perpetration of the crimes in question;
- identify and propose updates and modifications of the Model itself to the Board of Directors in relation to the changed regulations or to the changed corporate needs or situation;
- verify that the update and amendment proposals set out by the Board of Directors are effectively integrated into the Model.

In the context of the above-described role, the SB has the following tasks:

- periodically verify the map of the Crime-prone Areas and the adequacy of the points of control in order to allow them to be adapted to changes in the company's business and/or structure. To this effect, the Model's recipients, as better described in its Special sections, must report to the SB any situations that might expose Velan to the risk of crime. All communication must be recorded in writing and sent to the designated email address activated by the SB;
- based on an SB activity plan set beforehand, periodically perform checks and inspections aimed at specific operations or actions, occurring within Crime-prone Areas;
- gather, analyse and keep information (including the reports specified in the following

paragraph) that might be important in order to comply with the Model, as well as update the list of information that must absolutely be sent to the SB;

- conduct internal investigations to assess any alleged violations in the prescriptions of this Model, brought to the SB's attention by specific reports or emerged during its surveillance activities;
- verify that the elements set out in the Model for the different types of crimes (standard clauses, procedures and relative controls, system of delegations, etc.) are actually adopted and implemented and respond to the observance requirements set out in Leg.D. no. 231 of 2001. If the above was not the case, propose measures for their amendment and update.

The following powers are assigned to the SB in order to perform the above-mentioned functions and tasks:

- access a vast range of corporate documents and their details, and, in particular, access those documents that pertain to contractual relationships, and not established by the Company with third parties;
- avail itself of the support and cooperation of the various corporate structures and company bodies that can be affected, or in any event involved, in control activities;
- confer specific consultancy and assistance tasks to professionals, including those outside the Company.

#### **4.5 Resources of the Supervisory Board**

The Board of Directors assigns to the SB the necessary human and financial resources to perform the assigned task. In particular, the SB has autonomous spending powers, as well as the right to draw up, modify and/or terminate professional appointments to third parties with the necessary specific expertise to improve task performance.

#### **4.6 Information flows of the Supervisory Board**

##### **4.6.1 Information due to the Supervisory Board**

In order to facilitate the activities to monitor the efficacy of the Model, the SB must be informed, through dedicated reports by Recipients (and, where appropriate, by Third parties) concerning events that might result in the liability of the Company pursuant to Leg.D. no. 231 of 2001.

On the matter, the following general rules are in place:

- Each Function Director must gather any alerts in relation to the perpetration, or the reasonable threat of perpetration, of the crimes set out in Leg.D. no. 231 of 2001 or in any event to behaviours that in general are not in line with the behaviour rules set out in the Model;
- each member of staff must report the violation (or alleged violation) of the Model by contacting its own direct line manager and/or the SB to email address “velanabv.[odv@legalmail.it](mailto:odv@legalmail.it)” (with SB provision “dedicated information channels” are instituted to facilitate the flow of alerts and information);
- with regard to their activity in relation to Velan, consultants and collaborators send the alert directly to the SB through “dedicated information channels” to be defined contractually.

The SB assess the reports it receives and the activities to implement.

Those who send an alert in good faith are guaranteed against any form of retaliation, discrimination or penalty and in any case the confidentiality of the person issuing the alert will be guaranteed, without prejudice to legal obligations and the protection of the rights of the Company or of the people erroneously accused or in bad faith.

In addition to reporting the above-mentioned general violations, news must be communicated to the SB relating to any disciplinary procedures put in place in relation to information concerning a violation of the Model and in relation to the imposed sanctions (therein included the provisions taken towards the employees), or news relating to provisions dismissing such procedures, with their relative explanations.

#### 4.6.2 Information due by the Supervisory Board

With the premise that the responsibility for adopting and implementing the Model effectively remains with the Company's Board of Directors, the SB reports on the execution of the Model and on the occurring of any critical issues.

The following reporting lines are established:

- i. to the Managing Directors in an ongoing fashion;
- ii. at least six-monthly to the Board of Directors and the Board of Statutory Auditors.

As for the reporting line specified in the above-mentioned letter (ii), the SB sets out:

- the six-monthly report relating to the operations undertaken (controls and inspections performed and their outcome, etc.);
- the annual surveillance Program, in line with the principles contained in the Model, in the context of the various lines of business;
- the prompt reporting in relation to legislative changes concerning the Entities' administrative liability.

Without prejudice to the above, evaluating on a case by case basis, the Supervisory Board can also communicate:

- (i) the results of its investigations to the managers of functions and/or processes, if there were aspects open to improvement arising from any activities. In such event, the SB must obtain a plan of action, and relative schedule, from the process managers, in order for the activities open to improvement to be implemented, as well as the outcome of such implementation;
- (ii) alert the Board of Directors or the Board of Statutory Auditors of any behaviours/actions that are not in line with the Model in order to:
  - a) acquire from the Board of Directors all the necessary elements, were the need to send communications to the structures in charge of assessing and enforcing disciplinary measures to arise;
  - b) give instructions for the elimination of faults in order to avoid the occurrence repeating.

Finally, the Board has the duty to inform the Board of Statutory Auditors immediately, were the violation to concern members of the Board of Directors.

#### **4.7 Gathering and storage of information**

Every information, alert and report set out in the Model are stored by the SB in a designated database, which can be digital and/or in printed form. The data and the information held in

the database are available to individuals outside the SB, with its prior authorisation. The latter defines the criteria and conditions for accessing the database with a dedicated internal provision, in compliance with existing regulations.

## **5. PENALTY SYSTEM FOR FAILURE TO FOLLOW THIS MODEL AND THE REGULATIONS- PROVISIONS INCORPORATED THEREIN**

### **5.1 General principles**

The Company acknowledges and declares that setting up an adequate penalty system for the violation of regulations contained in the model, in the relative Annexes and in the Procedures is an essential condition to ensure the effectiveness of the Model itself.

For this purpose, indeed, article 6 paragraph 2 letter e) of the Decree envisages that organisation and management models must “*introduce a disciplinary system suitable to sanction the failure to follow the measures specified in the model*”.

The enforcement of disciplinary sanctions occurs irrespectively of the outcome of any penal procedure, as the conduct rules imposed by the Model and by the Procedures are taken on by the Company in complete autonomy and regardless of the type of offences, specified in Leg.D. no. 231 of 2001, that the violations in question might cause.

More precisely, failure to follow the regulations contained in the Model and in the Procedures is in itself alone prejudicial to the existing relation of trust with the Company and results in disciplinary actions regardless of the establishment of any penal judgement in the cases in which the violation constitutes a crime. The above is also in line with the principles of promptness and immediacy of the disciplinary notification and of the imposition of sanctions, following the applicable law.

### **5.2 Definition of “Violation” for the purposes of the performance of this Penalty System**

For purely general and illustrative purposes, the “Violation” of this Model and of the relative Procedures comprises:

- the performance of actions or behaviours that are not compliant with the law and the regulations contained in the Model and its relative Procedures, resulting in a situation whereby there is even just the risk that one of the crimes contemplated by Leg.D. no. 231 of 2001 is perpetrated;
- the omission of actions and behaviours prescribed in the Model and in the relative Procedures, resulting in a situation whereby there is even just the risk that one of the crimes contemplated by Leg.D. no. 231 of 2001 is perpetrated.

### **5.3 Sanctions for employees**

#### **5.3.1 Employees that are not in management position**

The behaviours displayed by employees in violation of the regulations contained in this Model and in the Corporate Procedures are defined as *disciplinary offences*.

With reference to the type of sanctions imposed to said employees, they fall within those set out by the National Collective Labour Agreements (CCNL) applicable for each category, in line with the procedures set out by article 7 of Law no. 300 of 1970 (hereafter, in short, the “**Workers’ Statute**”) and any special applicable regulations.

The Violation by employees, pursuant to previous paragraph 5.2 of this Model can, depending on the severity of the Violation itself, give rise to provisions that are put in place to enforce the principles of proportionality, as well as the criteria of correlation between infringement and sanction, and, in any event, in line with the form and procedures set out by the existing regulations.

In any case, without prejudice to what specified in the Disciplinary System used at Velan, infringements to the Model can be punished, depending on the severity of the fault, with the following procedures:

- verbal warning;
- written warning;
- fine;
- suspension;
- dismissal.

The type and entity of each sanction must be applied taking into consideration:

- the intentionality of the behaviour or of the level of negligence, imprudence or unskillfulness, also with regard to predictability of the event;
- the overall behaviour of the worker, with particular attention to whether disciplinary precedents for the person in question exist or not, within the limits set by law;
- the worker's tasks;
- the functional position and the level of responsibility and autonomy of the people involved in the events constituting the fault;
- the other particular circumstances relative to the disciplinary offence.

The Supervisory Board is entrusted with the task of verifying and assessing the suitability of the disciplinary system in the light of Decree 231. The Supervisory Board must also provide accurate details in its regular six-monthly report of any areas of improvement and development of the current disciplinary systems, especially in the light of the development of regulation on the matter.

#### 5.3.2 Executives

In the event of: (a) Violation by executives pursuant to previous paragraph 5.2 or (b) adoption, by executives, of a behaviour not compliant with the requirements of the above-mentioned documents in performing activities in Crime-prone Areas, the most appropriate disciplinary measures will be applied toward the people responsible, in compliance with what set out by the National Collective Labour Agreement (CCNL) applicable to the category.

#### 5.4 Directors

In case of Violation of the rules set out in the previous paragraph 5.2 by one or more of Velan's Directors, the Supervisory Board will promptly inform the Company's Board of Directors and Board of Statutory Auditors for the appropriate assessments to be made and provisions to be taken.

Were one or more Directors to be indicted, as alleged authors of the crime from which the administrative liability of Company is derived, the President of the Company's Board of Directors or, in his place, the other Director) must proceed to convening the Shareholders' meeting to decree on the revocation of the mandate.

### **5.5 Statutory auditors**

In the case of Violation of the rules set out in the previous paragraph 5.2 by one or more of the members of the Board of Statutory Auditors, the Supervisory Board informs the Board of Directors and the Board of Statutory Auditors itself, and, upon the request of President of the Board of Directors the Shareholders' Meeting is convened in order that appropriate provisions are made.

### **5.6 Third parties: external collaborators, agents and consultants**

In the case of Violation of the rules set out in the previous paragraph 5.2 by one of the collaborators, agents or external consultants, or, more in general, by Third Parties, the Company, depending on the gravity of the violation: (i) will call on the people involved follow the provisions set out therein, or (ii) will be entitled, depending on the various types of contract, to withdraw from the existing relation for just cause or to cancel due to the breach caused by the above-mentioned individuals.

For this purpose, the Company has seen to the insertion of dedicated clauses in the above, which envisage: (a) the notice given to Third parties of the adoption of the Model and of the Code of Ethics by the Company, which Third parties declare to have read, committing to abide by its contents and not to engage in behaviours that might cause a violation of the law or of the Model, or the perpetration of any of the liable offences; (b) the Company's right to withdraw from the relation or to terminate the contract (with or without the enforcement of penalties), in case such obligations are not respected.

### **5.7 Register**

The Company adopts the use of a register in which it must proceed to the enrolment of all those who have perpetrated a Violation pursuant to the previous paragraph 5.2. Enrolment to said register entails the prohibition to set up new contractual relationships with the same people involved.