

Report on Corporate Governance

2014

*Approved by the Board of Directors
on May, 30th 2015*

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Foreword

The purpose of this Report is in to provide a general yet complete overview of the corporate governance system adopted by Augustea Holding Spa (hereinafter also "Augustea" or the "Company") and applied to the Group companies it heads (hereinafter for brevity, the "Augustea Group" or more simply, the "Group"), including the main characteristics of the internal control and risk management system and also with regard to the financial information process.

Although not listed, the Company considered it appropriate to render its own corporate governance system compliant with the principles set out in the "Self-Regulatory Code" for listed companies prescribed by the Italian Stock Exchange and published in 2011, which can be consulted on the website www.borsaitaliana.it.

Oriented towards an objective of creating value for shareholders over a medium to long-term time horizon, the corporate governance system adopted is based - in addition to the recommendations made by CONSOB on such matters - more generally on international best practices.

The text of this Report was approved by the Board of Directors on May 30th, 2015 following pronouncement of a prior opinion by the Control and Risks Committee. The Report has been published in the "Corporate Governance" section of the Company's website.

The information set out in this Report refers to the 2014 financial year and specific themes, as updated to the date of the Board of Directors' Meeting which approved it.

Section I - Ownership structures

Share Capital

The share capital of Augustea Holding Spa totals €35,000,000, fully paid and subscribed.

It comprises ordinary shares exclusively, each of nominal value €1.

Pursuant to the Articles of Association (article 7), shares are registered and indivisible, and freely transferable exclusively in favour of controlling or subsidiary companies or companies under common control, or to other shareholders (article 12). Other than in these cases, the Articles of Association (article 12) establish a system governing the transfer of shares to "non-shareholder" third parties (including the heirs of natural persons) under which a shareholder wishing to sell his/her own shares or subject them to rights *in rem* or constitute them in guarantee, the Board must promptly convene a Shareholders' Meeting so the latter may resolve on approval of the proposed assignee.

All shares give entitlement to voting rights.

No financial instruments giving entitlement to subscribe to newly issued shares have been issued.

On the date of this Report, the equity interests in the Company's registered capital are as hereunder:

SHAREHOLDERS	No. of Shares	
META Sapa	28,959,000	82.74%
VERDE MICHELE	3,290,000	9.40%
CAFIERO PIETRANTONIO	1,130,500	3.23%
CAFIERO MARIA LAURA	570,500	1.63%
CAFIERO PIETRANTONIO (16.01.1943)	350,000	1.00%
CAFIERO MARILARA	350,000	1.00%
CAFIERO ANTONELLA	350,000	1.00%
TOTAL	35,000,000	100%

Augustea Holding Spa, pursuant to article 2497 of the Italian Civil Code, manages and co-ordinates the various operating companies of the Group.

Stock option plans

Pursuant to article 6 of the Articles of Association, an Extraordinary General Meeting may resolve to increase the registered share capital to service stock option plans with the right to determine the subscription price of which the minimum value shall, however, not be less than the nominal value plus a share premium to be determined in the Regulations of the stock option plan.

In 2014 the Board of Directors of Augustea Atlantica Spa and Augustea Holding Spa, respectively on 20 July and 16 September, resolved to exercise the latest options foreseen in the stock option plans, which are therefore full implemented.

Securities conferring special rights

Pursuant to article 7 of its Articles of Association, the Company may issue special shares under applicable laws. No securities which confer special rights have been issued.

Agreements between shareholders

The Company has not concluded any shareholder side agreements.

Change of control clauses

In the scope of its normal business, the Company has recourse to third party finance imposing specific effects in the event of a change of control. Augustea Holding acts as guarantor for various loans granted to its subsidiary operating companies which incorporate change of control clauses.

Dividends policy

By a resolution of 27 February 2012, the Board of Directors resolved on a dividend distribution policy adopted by the operating companies vis-à-vis the Holding, for the purposes of aligning the management policies of the Group with standards adopted by shipping companies listed on the market.

By virtue of said resolution, following approval of the 2012 financial statements, the operating companies may pay the controlling company Augustea Holding dividends of a minimum of 4.5% of the net equity posted

in their financial statements as approved, provided that

- (i) the profits in the financial statement are adequate to cover said payment and
- (ii) the dividend does not prejudice future financial stability.

Should the Company not generate profits, or if the profits for the financial year do not permit payment of dividends of the amount referred to above, the dividend may be paid in full from reserves eligible for distribution or paid only partially or not paid, according to what is indicated by the Board of Directors, which shall also evaluate cases in which payment of the dividend could prejudice future financial stability.

It is within the remit of the Board to define the policies for paying dividends exceeding standard value under conditions of extraordinary profitability achieved by the Companies or in other situations in which application of the aforementioned criterion is not justified.

Section II – Corporate Governance System

Values

The inviolable founding principles of the architecture of the Augustea Corporate Governance System are **integrity, transparency and propriety**. Through said values governance bodies consistently seek to establish an integrated enterprise model, that is with a shared and unified strategic plan with a view to maximising value for all constituent parts - but with total respect for the management autonomy of the individual operating divisions and obligations of confidentiality essential to protect the commercial interests of the companies concerned in compliance with applicable regulatory and legislative provisions.

As a result, there is an ongoing commitment

- to adopting measures that will ensure correct management of situations of actual or potential conflicts of interest and protect the rights of, and relations with, its own stakeholders through the provision of complete, timely, clear and accurate information
- to promoting, ensuring and maintaining an adequate, effective and efficient internal control system
- to pursuing best corporate governance practices, including by comparison with other Italian and foreign governance models and, in particular, the principles established by the best known associations and institutions in full compliance with applicable standards and regulations.

In addition, Augustea incorporates **sustainability** into its own governance model, as a value which orients its strategies and contributes to achieving medium to long-term targets, through a process of continuous and horizontal improvement of the Group in its entirety, going from planning, monitoring and control to the prevention and management of risks, from the start of operations to reporting and external communications on performance and activities.

From this standpoint, all corporate objectives are pursued by an approach that is strongly oriented towards operating excellence, technological innovation, a central role of human resources and responsible business management, and characterised by rigorous financial discipline and the highest ethical principles.

Organisational structure

The corporate governance organisational structure of Augustea is based on a traditional model.

In said structure, the Board of Directors with its remit of management and at the same time as a collegiate body, and through specific committees which make proposals and provide advice, is tasked with verifying the presence of controls that are essential for monitoring company performance; the Board is assisted by an external body vested with autonomous powers and responsibilities, comprising persons appointed on the strength of their professionalism, integrity and independence as defined by law and supplemented, if necessary, by provisions in the articles of association.

The organisational structure is characterised by the presence of:

1. the **General Meeting**, with concern to resolve *inter alia* – as an ordinary or extraordinary Meeting – on (i) the appointment and dismissal of members of the Board of Directors and of the Board of Statutory Auditors, their relative remuneration and responsibilities, (ii) approval of financial statements and allocation of profits, (iii) any purchases or sales of own shares, (iv) amendments of the Articles of Association;
2. the **Board of Directors**, appointed to carry out corporate management;
3. the **Board of Statutory Auditors** called on to (i) supervise compliance with the law and Articles of Association and abidance by the principles of proper administration in the conduct of corporate business, (ii) monitor the adequacy of the organisational structure, the internal control system and the accounting and administrative system of the Company and (iii) verify the methods for tangible implementation of the Corporate Governance rules.

The duties of the independent auditors are entrusted to the **Auditing Firm** appointed by the General Meeting.

Pursuant to the articles of association, the Board of Directors appoints one or more Managing Directors responsible for management of the Company, reserving to its own exclusive remit decisions on certain matters and conferring on the Chairman the role of coordinating the activities of the Board and the power to contribute through recommendations to the decision-making processes inherent in strategic decisions on the future development of the Company and of the Group.

The pre-selected model thus sanctions a clear distinction between the duties of the Chairman and those of the Managing Director; both are entitled to represent the Company.

The Board has established two internal Committees which offer advice and make proposals: the **Risks and Control Committee** and the **Remuneration and Appointments Committee**.

General Meeting

The General Meeting is the collegiate body which expresses, by the majority provided by law and in the articles of association, corporate will and is the institutional meeting between Company management and its shareholders.

When convening, scheduling and managing General Meetings, special attention is paid to promoting participation by shareholders, notably minority equity interests, and providing optimum quality of disclosure to them at that time.

The procedures for convening and conducting the General Meeting and for exercising rights conferred on shareholders are governed by law and the articles of association.

An Ordinary General Meeting (i) approves the financial statements for the financial year; (ii) appoints and dismisses Directors and determines their number within the limits set by the articles of association; (iii) appoints the Statutory Auditors and the Chairman of the Board of Statutory Auditors; (iv) appoints the independent audit firm; (v) determines the remuneration for Directors and Statutory Auditors pursuant to law; (vi) resolves on the responsibilities of Directors and Statutory Auditors; (vii) deals with other matters expressly of its concern under the law.

An extraordinary General Meeting resolves on amendments on the articles of association, on the appointment, replacement and powers of liquidators, on the issuance of financial instruments and bond loans, the appropriation of assets and all other matters expressly conferred on it by law.

Conferring upon the administrative body of resolutions which by law fall within the purview of the General Meeting does not vitiate the main remit of the General Meeting, which retains power to resolve on such matters.

Board of Directors

Role, composition criteria, duties

The purpose of the Board of Directors is to create value for shareholders through policies that stabilise results over time and diversify risks, so preserving assets from the cyclical nature of the business.

The Board of Directors heads the functions and is responsible for defining strategic and organisational guidelines and for verifying the existence of controls required to monitor performance of the Company and the Group.

According to the provisions in the Company articles of association, the Board of Directors comprises between three and seven members, appointed by the Ordinary General Meeting (which determines their number within said limits) for a period not exceeding three financial years and they are eligible for re-election at expiry of their term in office.

The Board of Directors meets regularly and organises its business to ensure effective fulfilment of its specific functions.

Directors must satisfy the requirements of integrity and professionalism.

To abide by the criterion of integrity, the following may not be appointed as Directors: (1) persons who are ineligible or who have forfeited their eligibility under article 2382 of the Italian Civil Code (prohibition, incapacity, declaration of bankruptcy); (2) persons who have served as directors in companies which were declared bankrupt; (3) or have been convicted under a final sentence without appeal.

In addition, Directors of Augustea Group Companies must be selected according to criteria of professionalism and competence from among candidates who have gained overall experience through at least 7 years' service as managers or auditors: a) in the Group or companies performing similar activities or b) in other enterprises where they acquired proven management experience.

Executive and non-executive directors. Requirements of independence

The Board of Directors comprises executive and non-executive directors.

Pursuant to the Self-Regulatory Code issued by the Italian Stock Exchange, **executive directors** include:

- the Managing Director of the Company (or of a Group company with strategic importance) and directors vested with individual delegated management powers or who fulfil a specific role in preparing corporate strategies

- those fulfilling management roles in the Company (or in Group companies of strategic importance).

Directors who do not fall within one of the aforementioned cases are classified as **non-executive directors** and their number must be such as to ensure that their opinion carries significant weight in Board decisions.

At least one member of the Board of Directors must satisfy requirements of **independence**, that is:

- not exercising directly or indirectly or on behalf of third parties, control over the Company
- not being an employee and not maintaining or having maintained during the previous year – directly or indirectly or through third parties – economic relations with the Company or with other group companies that would prejudice his/her independent opinion
- not being a spouse or legally separated spouse, a parent or relative of the second degree, whether directly or collaterally, of an executive director or a shareholder exercising control, including indirectly, over the Company”.

Fulfilment of the “independence” requirement is declared by the director appointed at the time of acceptance of appointment, and is ascertained by the Board during the first subsequent meeting.

The independent director undertakes to notify the Board promptly of any change of circumstances which might compromise his/her independence.

When appointing independent directors consideration is given to the appropriateness of periodic rotation, of positions and between companies, to ensure transparency, eliminate any potential incompatibility and prevent the establishment of relations which over the length of the term in office could prejudice the impartiality and objectivity of directors’ opinions.

Independent directors shall meet at least once a year to discuss themes considered relevant to corporate management. When organising said meetings the independent directors may avail themselves of the support of corporate structures.

The Board of Directors and the Board of Statutory Auditors are responsible for verifying the content of the declaration of independence and proper application of the requirements and procedure defined above respectively.

The age limit for executive directors is 65 years and 75 years for non-executive directors; from 2011 specific departures are authorised until expiry of the term in office.

Every Director is bound both by a duty of professional privilege for information received in the course of his/her term in office and by a duty to protect the interests of the Company; they may not pursue personal aims through their decisions nor use business opportunities open to the Company to their own advantage. A Director in a situation of conflict of interest, even potential, must inform the Board of Directors at the first reasonable opportunity and abstain from participating in the vote.

Powers of the governing body

The Articles of Association set aside the following powers to the governing body:

- defining the system of the Company of corporate governance, providing for the constitution and identification of the powers conferred on the internal Committees of the Board, whose members it appoints

- evaluating and resolving on the adequacy of the organisational, administrative and accounting structure of the Company;
- examining and issuing prior approval for potential agreements and accords with the Public Administrations
- defining guidelines for the internal control system to ensure identification, measurement, management and monitoring of the main risks facing the Company and its subsidiaries and annually evaluating the adequacy, effectiveness and actual operation of the internal control system
- formulating proposals to be submitted to the General Meeting and reporting during the meeting on activities performed and scheduled, ensuring adequate information to shareholders so they can reach decisions within the concern of the General Meeting in full awareness of the circumstances
- issuing provisions on exercising voting rights during General Meetings of subsidiaries providing, in addition, for the appointment of members of the administrative and control bodies of the latter
- appointing and dismissing, upon a proposal of the Managing Director concerned, the Chief Executive Officer, who participates at the Board of Directors; meetings of subsidiaries with a duty of reporting during the latter on the strategic guidelines defined by the Board of Directors of the Parent Company, and periodic reporting to the latter on initiatives by the companies and the results achieved
- appointing and dismissing the head of Internal Audit, upon a proposal of the Managing Director concerned, after hearing the opinion of the Internal Control Committee and approving the guidelines
- determining the remuneration of Managing Directors and other Directors vested with specific offices, according to proposals formulated by the appropriate committee if constituted, after hearing the opinion of the Board of Statutory Auditors
- issuing prior approval if within the concern of the Company, or prior evaluation if relative to Group companies, of the recruitment of management staff
- directing and coordinating the human resources policy at group level, upon a proposal of the Managing Director
- establishing one or more internal committees responsible for making proposals and/or fulfilling advisory functions
- defining the corporate structure of the Group and verifying its adequacy
- examining and approving strategic, industrial and financial plans of the Company and its subsidiaries, such as objectives and strategic agreements, annual budget and long-term plans and their periodic review, verifying their alignment with objectives
- evaluating management performance of the Company and its subsidiaries and achievement of the programmed results
- approving financial statements.

The following powers are set aside to the governing Body:

- defining the corporate governance system of the Group;
- evaluating the adequacy of the organisational, administrative and general accounting structure of the Group, including the internal control system and resolving on changes in the organisational structure

- examination and prior evaluation of possible agreements and schemes which Group companies intend to conclude with public administrations;
- adopting an adequate internal control system and defining the risk management policies of the Company and of the Group
- evaluating whether it is opportune and then possibly establishing shareholding incentive plans for approval by the General Meeting and in general evaluating and providing criteria to define an incentive scheme for the Company and the Group
- examination and issuing of prior approval, if within the Company's concern, or prior evaluation if relative to Group companies (when said transactions are not already included in the approved annual budget) of transactions of significant strategic importance;
- appointing and dismissing the manager appointed to prepare corporate accounting documents upon a proposal of the Managing Director, subject to a favourable opinion of the Board of Statutory Auditors and overseeing that they have adequate powers and resources to fulfil the tasks attributed by law as well as effective compliance with administrative and accounting procedures prepared by the manager.
- approving the plan for non-profit interventions of the Company and the Group.

Delegated bodies

Chairman

The Articles of Association reserve the following powers to the Chairman of the Board of Directors:

- a. representing the Company before Administrations of the State, Public and Private Sector Bodies, and Port Administrations and Authorities and in general before any other Authority and/or Body with which the Company maintains relations
- b. representing the Company before any other judicial, administrative and/or tax authority, with the power, merely by way of example, to sign powers of attorney to appear before courts; settle disputes by formal and informal arbitration and from time to time make the relative appointments
- c. representing the Company, protecting and promoting its interests vis-à-vis organisations and associations in the Industry
- d. representing the Company at General Meetings, other meetings and/or other gatherings of the companies or bodies in which the latter has equity and/or other interests
- e. coordinating the activities of the Board of Directors and supervising its works ensuring that Directors are given comprehensive and timely briefings and ascertaining that the relative decisions are properly implemented
- f. contributing through recommendations, to the decision-making processes intrinsic to strategic decisions on development of the Company fleet.

In the scope of the process for reviewing the award of operational delegated powers, with effect from 10 July 2013, by resolution of the Board of Directors, the following additional powers were granted to the Chairman:

- overseeing and supporting the activities of the managing directors;
- in the scope of the resolutions defined by the Board of Directors, dealing with recruitment of administrative office and/or management staff within

the company and determining their remuneration

- supervising day to day management of company staff and without limits as to amount, ordering payment of the relative remuneration
- contributing through recommendations to decisions on Group risk management
- opening and closing current post office and bank accounts; conducting transactions on accounts in the name of the Company using any instrument provided by banking and/or post office regulations; requesting surety from third parties without any limit on the amount. Delegating powers to third party attorneys to carry out activities described in this point.

Managing Directors

Managing Directors are vested with all powers of administration for the Company, except those otherwise attributed by law or the articles of association or powers reserved by the Board exclusively to its own remit.

In the scope of the review of the award of delegated operating powers by resolution of the Board dated 10 July 2013, the following were set aside for Managing Directors, including individually: all ordinary and extraordinary powers of administration (leave to appoint third party attorneys falls within the scope of ordinary administration), limiting the autonomy of expenditure to operations not exceeding €2,500,000 for each transaction, excluding powers which, other than those attributed by the Articles of Association, remain within the remit of the Board of Directors (excluding periodic reporting, at least every half year on implementation of delegated powers).

Upon appointment Managing Directors enter into a commitment to maintain their own expenditure autonomy within the limits of the approved budget and to endorse decisions on expenses not foreseen in the budget:

- a. with the Board of Directors, if exceeding €1,500,000 for the purchase and sale of vessels and related expenditure on maintenance, businesses, business divisions and equity interests, finance or exceeding €500,000 for acquisition of goods and services and the acquisition and sale of real estate;
- b. with the Chairman if between €200,000 and €1.5 million for acquisition and sale of vessels and related expenses for maintenance, businesses, branch of businesses and equity interests, finance or between €200,000 and €500,000 for acquisition of goods and services and acquisition and sale of real estate.

Composition

The following were appointed as members of the Board of Directors: Lucio Zagari (Chairman), Raffaele Zagari (Managing Director, CEO), Maurizio Pavesi (Managing Director, CFO) and the non-executive independent directors Roberto Donnini (coopted on June 30 to replace the resigning Luigi Chessa, in office until April 2, 2014), Antonio Garzilli, Emanuele Marcianò and Franco Mosca.

By deed dated 28 June 2013, the term in office of the current board of directors shall expire on the date of the General Meeting approving the financial statements ending 31.12.2014.

Five meetings were held during the year, of an average duration slightly exceeding two hours, with average attendance of 97% (100% of independent directors).

Table 1 in Annexe I summarises the structure and percentage attendance for the Board of Directors.

Remuneration

Remuneration of members of the Board of Directors is determined by the General Meeting at the time of appointment. The overall economic benefits awarded to the Chairman and Managing Directors is set by the Board of Directors, after hearing the opinion of the Board of Statutory Auditors. Additional remuneration for members of the Committees responsible for providing advisory services and drawing up proposals constituted within the Board is set by the Board itself. The current remuneration was resolved by the Shareholders' Meeting held on 28 June 2013 as €355,000 in total, distributed in the following bands:

	Nb of directors
≤ € 20,000	5
up to € 80,000	1
> € 80,000	1

Committees Internal to the Board of Directors

Pursuant to the articles of association (art. 33) the Board of Directors may constitute one or more committees.

For the purposes of ensuring effective fulfilment of its own functions, by resolution of 10 June 2010 The Board of Directors of Augustea Holding Spa, established a Remuneration Committee and an Internal Control Committee, with advisory and proposal functions and to address delicate themes that may prove a source of potential conflicts of interest. Subsequently, by a resolution of 10 July 2013, the two Committees were adapted regarding their names and the responsibilities conferred on them in alignment with the amendments introduced by the new Self-Regulatory Code which is the main reference for the corporate governance system of Augustea.

The Committees, which periodically refer to the Board on the activities performed, have their own operating regulations which govern their composition, tasks and operating procedures.

Risks and Control Committee

The Risks and Control Committee was established with the task of assisting the Board of Directors with advisory and proposal functions for the evaluation of and decisions on the internal risk management and control system and also, the evaluation of and decisions on approving the periodic financial reports.

It must predominantly be composed of non-executive directors, mostly independent, with adequate experience in accounting and finance or risk management, as assessed by the Board at the time of appointment.

According to the Organisational Regulations supplemented by the new provisions of the Self-Regulatory Code (update of December 2011), the Committee submits its own prior opinions to the Board of Directors:

- a) on defining guidelines for the internal control and risk management system, ensuring that the main risks confronting the Company and its subsidiaries are correctly identified, assessed, managed and monitored.
- b) on determining the compatibility of the corporate risks as per letter a)

above with Company management of consistent with the strategic targets identified (known as the *risk appetite*)

- c) on periodic evaluation of the adequacy, effectiveness and actual functioning of the system
- d) on approval of the work plan provided by Internal Audit
- e) on the description set out in the Report on Corporate Governance of the main characteristics of the internal control and risk management system, including an evaluation of the adequacy of the system;
- f) on the evaluation, after hearing the Board of Statutory Auditors, of the findings set out by the independent auditor in any letter of suggestions and in the reports on fundamental questions coming to light during the audit.

In assisting the Board of Directors, the Committee has also been entrusted with the following tasks:

- a) expressing opinions at the request of the Managing Director on specific aspects of identifying the main corporate risks and planning, implementation and management of the internal risk control system
- b) evaluating, with the assistance of the head of Internal Audit the methods for managing risks and achieving compliance with the plans defined to contain it;
- c) examining and evaluating
 1. communications and information received from the Board of Statutory Auditors and its members on the internal control and risk management system;
 2. periodic reports issued by the Supervisory Board, including in its capacity as Guarantor of the Code of Ethics
 3. together with the Manager appointed to prepare accounting and corporate documents and, after hearing the opinion of the Independent Auditor and the Board of Statutory Auditors, proper application of accounting principles and their uniformity for the purposes of preparing the Consolidated Financial Statements prior to approval by the Board of Directors
- d) examining and expressing an opinion on the report on the corporate disclosure control system ("certificate") provided by the Manager responsible for preparing corporate accounting documents when approving the draft financial statements;
- e) evaluating, with the assistance of the Head of Internal Audit and the Managing Director, proposals made by the independent Auditor for award of the appointment as well as the work plan submitted for review and effectiveness of the account auditing process;
- f) examining the periodic reports provided by Internal Audit
- g) examining and expressing an opinion on the transparency and propriety on both substance and form and on the benefits for the Company of transactions with related parties in which a Director holds an interest on own behalf or that of a third party
- h) performing any further tasks entrusted to it by the Board of Directors;
- i) reporting to the Board of Directors, at least annually at the time of approval of the financial statements, on the activities performed and

the adequacy of the internal control and risk management system.

From the standpoint of ongoing comparisons and exploitation of synergy, identifying the most significant risk categories in relation to the corporate purposes and the opportunity costs of the correlated risks, the Chairman of the Board of Statutory Auditors and the head of Internal Audit will participate at committee meetings; the head of Internal Audit will serve as Secretary.

Employees and experts, including the Audit Firm, may also participate at meetings at the invitation of the Committee Chairman – they too with consultative functions.

By resolution of 10 July 2013, the Board appointed as members of the risks and Control Committee, the Directors Emanuele Marcianò, Chairman (non-executive and independent), Franco Mosca (non-executive and independent) and Maurizio Pavesi, (executive, CFO of the Group).

In 2014, four meetings were held during which the Committee:

- approved the audit plan and updates submitted and considered the information provided and procedures for conducting verification activities and endorsed the improvement plans identified
- considered the approach to planning and executing audits was consistent with the approved audit plan and the main risks to which the enterprise is exposed, and in line with the standards of service required from the function
- evaluated and analysed the periodical reports monitoring interest rate hedging
- evaluated the policies for managing liquidity and consequent results
- expressed its own reasoned opinion to the Board on transactions between related parties subject to its examination
- expressed a favourable opinion on the Board's approval of the amendments and supplements to the Organisation, Management and Control Model pursuant to Legislative Decree 231/2001 considering that the proposed updates met the requirement for constant monitoring of the main corporate risks and above all, documented the constant commitment of the organisation to improving the internal control system by updating the potential risks and their adequate measurement, management and monitoring;
- expressed a favourable opinion on the report on the system for controlling corporate information ("certification") provided by the Manager responsible for preparing corporate accounting documents and considered the communication received was appropriate. In addition, suggested that in future, this report i) should explicitly certify the adequacy and effective application of the administrative and accounting procedures for forming the financial statements for the financial year/ consolidated financial statements during the period, ii) should include any information, comments and observations on situations of particular management or strategic importance or the existence of problems/anomalies encountered, including in the scope of effective application of the procedures and any possible reference to the body of generally used principles in its preparation; iii) should attest that the report on management includes a reliable analysis of performance and results of management and of the situation of the Company and the series of companies included in the scope of consolidation, together with a description of the main risks and

uncertainties to which they are exposed, iv) should also be signed by the Managing Director;

- approved the Annual Report for advising the Board on activities and the adequacy of the internal control and risk management system
- analysed the "Risk Appetite Triggers" report, prepared with the objective of implementing a system of key indicators predominantly of a financial nature, their dynamics and possible critical aspects. The Committee endorsed the methodology adopted and made appropriate suggestions and recommendations on improving the effectiveness of the briefing of the report and modulating its function on the basis of the actual information and management requirements of top management;
- downstream of an external audit conducted following an incident on the IT infrastructure, evaluated the advantages of an organisational analysis of said function, both in connection with measuring the value of the IT function (also in terms of capacity and managerial skills) and in planning future investments.

All the above meetings were regularly minuted and are characterised by the regular attendance of directors and of the Chairman of the Board of Statutory Auditors and the head of Internal Audit, serving as Secretary to the Committee.

In performing its own functions, the Control and risks Committee at all times had access to information corporate and functions of the Company and/or of the Group necessary for the purpose and no recourse was made to external consultants.

The Board of Directors did not assign a specific budget to the Committee. The independent, non-executive Directors, members of the Committee, received remuneration of €10,000 by resolution of the Board of Directors dated 10 July 2013, ratified by the Shareholders' Meeting on 30 June 2014.

The average percentage attendance at Committee Meetings was 100% (cf. Table 2 in Annexe 1).

Remunerations and Appointments Committee

A Remunerations and Appointments Committee was appointed by the Board of Directors on 10 July 2013 pursuant to the new provisions of the Self-Regulatory Code updated in December 2011.

The Committee was, with a duty of submitting proposals and advising allocated the following tasks:

- remuneration of directors and managers with strategic responsibilities
 - a) presenting proposals to the Board of Directors on remuneration of the managing director and other directors with specific offices, monitoring application of decisions adopted by the Board
 - b) periodically evaluating the adequacy, overall consistency and actual application of the policy for remuneration of directors and managers with strategic responsibilities
 - c) presenting proposals and expressing opinions to the Board of directors on the remuneration of executive directors and other directors with specific offices and setting performance targets correlated to the variable element of remuneration, monitoring application of decisions adopted by the Board, in particular verifying the tangible achievement of performance targets

- appointing members of the Board:
 - a) formulating opinions to the Board of Directors on the size and composition of the Board
 - b) expressing recommendations on the professional persons whose presence on the Board is considered opportune
 - c) proposing candidate directors to the Board of Directors in cases of co-option or to replace independent Directors
 - d) providing opinions to the Board of Directors on proposals for appointment of directors of subsidiaries.

In addition, within the scope of its own remit, the Committee will prepare and submit to the Board of Directors and monitor the deployment of incentive schemes (including stock option plans), understood as being instruments aimed at attracting and incentivising human resources who are suitably qualified and experienced, fostering a sense of belonging and ensure constant attention over time to value creation.

The Remunerations and Appointments Committee is composed exclusively of independent directors, experienced in human resources management and/or following performance of professional offices linked to the management of human resources or management of organisations and carrying out significant human resources related management tasks. At least one member is required to hold adequate knowledge and experience in financial matters or remuneration policies.

Members of the Remunerations and Appointments Committee are the directors Antonio Garzilli (appointed by resolution of 10 July 2013) and Roberto Donnini (co-opted by the Board of Directors on 28 May 2014, to replace the resigning director, the lawyer Luigi Chessa).

In 2014 four meetings were held during which the Committee

- made proposals on significant targets for determining the bonus due to Managing Directors for the 2014 financial year. Although referring to and confirming in full the criteria and methodology of the "Incentive Plan for other Group Managers", the Committee also evaluated whether the objectives in the Plan should be remodelled when revising the budget in the course of the financial year should unforeseen events or those beyond the reasonable control of the Managers concerned occur altering the assumptions upon which the setting of targets was based, such as to render them unachievable
- examined progress on implementation of the incentive plans adopted by Augustea Holding and other Group companies ("stock option plans" and "incentive plan for other Group managers")
- examined the plan for renewing the administrative bodies of subsidiaries (in office until the date of approval of the financial statements for the financial year ending 31 December 2014), indicating that it would be opportune for every decision on the new structure to be made with due consideration for the priority of management continuity of the enterprises, according to an appropriate renewal/replacement plan for top management. In addition, the Committee considered it would be opportune to submit for the attention of Group management, the possibility of providing for establishing the role of "Honorary Chairman" without parameters linked to age, allowing just recognition of highly prestigious players who have made substantial contributions to the expansion of the Group.

All these meetings were duly minuted and characterised by the regular attendance of independent directors who are members of the Control and Risks Committee.

In performing its tasks, the Remunerations and Appointments Committee at all times had access to information and corporate functions of the Company and/or the Group necessary for the purpose and did not avail itself of external consultants.

The Board of Directors did not assign a specific budget to the Committee. With effect from 10 July 2013 non-executive independent directors and members of the Committee received annual remuneration of €10,000 by resolution of the Board of Directors on said date, ratified by the Shareholders' Meeting on 30 June 2014.

Reference should be made to Table 3 in Annexe I for detail on the percentage attendance of each Director at Committee meetings.

Subsidiaries

The Board of Augustea Holding, by resolution of 24 April 2015, determined that the duration of the Board of Directors of the companies of each division is aligned with that of the parent, also aligning the powers delegated to the directors of the subsidiaries and identifying a homogeneous allocation the fees which, for the companies that own vessels, have been set up as follows:

- Euro 10,000 per year for the non-executive chairman;
- Euro 15,000 per annum for the CEOs;
- Euro 20,000 per year for the independent directors;
- Euro 10,000 per year for directors.

These amounts are intended as total compensation received for the positions possibly held at subsidiaries etc.

The Board, at the same meeting, also revised the powers attributed to the Chairman and the Managing Directors as follows:

- to the President, the non-executive powers conferred by the Statute;
- to the Managing Directors, all the powers of ordinary and extraordinary administration (and ordinary administration may appoint third prosecutors) limiting their spending autonomy to operations not exceeding the amount of EUR 500,000 per transaction.

Integrating the adopted governance principles, the Board has finally given to the executive directors of Augustea Holding SpA the responsibility for identifying the main goals of the subsidiaries' Boards, in order to ease the assessment of their actions.

Board of Statutory Auditors

According to the legal provisions and those in the Company Articles of Association (article 37), the Board of Statutory Auditors comprises three acting auditors and two reserve auditors, appointed for a term of three years by the ordinary General Meeting which appoints the Board's Chairman and determines remuneration for members' entire term in office.

Pursuant to the Consolidated Finance Law The Board of Statutory Auditors, monitors observation of laws and the articles of association, abidance by principles of proper administration and, in particular, adequacy of the administrative and accounting organisational structure

adopted by the Company and its actual functioning.

To guarantee effective performance of tasks by the Board of Statutory Auditors, pursuant to the provisions of the Self-Regulatory Code on which the corporate governance system adopted is based, at the end of 2010 the Board of Directors expressly acknowledged, insofar as fell within its remit

- the power to oversee the independence of the audit firm, verifying both compliance with applicable regulations and the nature and extent of the various account auditing services provided for the Company and the Group by said audit firm and the entities included in its network¹
- the power, which may be exercised even individually by Statutory Auditors, of requiring the Company head of Internal Audit to carry out checks of specific operating areas and corporate transactions
- the power to make timely exchange of significant information with the Internal Audit Committee for performing their respective tasks.

According to current legislation, members of the Board of Statutory Auditors must meet the requirements of integrity foreseen for corporate managers and financial intermediaries in addition to those established for the auditors of listed companies.

They must also meet the professional requirements imposed by law on auditors of listed companies, as supplemented by appropriate provisions in the articles of association and, finally, the requirements of independence identified by the law for the auditors of listed companies and Group governance by its Directors.

Augustea Holding Spa and the main operating companies in the Group have the same Board of Statutory Auditors to render the system of external supervision and control of the Group uniform.

On 28 June 2013, the ordinary Shareholders' Meeting appointed, as Statutory Auditors until approval of the financial statements for the financial year ending on 31.12.2015: Mario d'Onofrio, Statutory Auditor and Chairman; Giovanni De Leva, Roberto Perrone Capano, Statutory Auditors; Attilio Romano and Giulio Dumontet, reserve Statutory Auditors.

The same ordinary General Meeting determined the gross annual remuneration of the Board of Statutory Auditors in €31,000, plus VAT and CPA (lawyers' social security fund contribution) (where due) plus reimbursement of expenses necessary for performing their duties.

The Statutory Auditors are supplied at the same time as Directors, with documentation on the items on the agenda of Board meetings and during Board meetings, informed briefing is rendered by the Board of Directors and the Managing Director on the activity performed and transactions of greatest economic financial or assets related impact conducted by the Company.

5 meetings of the Board of Statutory Auditors were held in 2014, the average length of each meeting was approximately 3 hours.

¹ This power is formally conferred on the Board of Statutory Auditors by Legislative Decree No. 39 of 27 January 2010, transposing Directive 2006/43/EC on the statutory auditing of annual and consolidated financial statements into Italian domestic law.

In the scope of its own institutional tasks, the Board met with the Company manager responsible for auditing and accounting control of the Company and it coordinated its activities with the head of Internal Audit and the Internal Control Committee, whose meetings the Chairman attended regularly.

In addition, by resolution of the Board of Directors of 10 September 2012, the current Statutory Auditors were appointed members of the Supervisory Board of the Company, required to supervise the functioning, effectiveness and compliance with the Organisation, Management and Control Model adopted pursuant to Legislative Decree 231/2001.

The percentage attendance of each Statutory Auditor at meetings of the Board of Statutory Auditors is set out in Table 4 of Annexe I.

Independent Auditor

The independent auditing of the financial statements of Augustea Holding Spa is conferred pursuant to law upon an auditing firm registered in the CONSOB special register, and whose appointment is the concern of the General Meeting upon a reasoned proposal by the Board of Statutory Auditors. The proposals made by the independent audit firm to obtain appointment are submitted to the Control and risks Committee, called upon – pursuant to article 2 of the organisational Regulations – to assess the proposals with the assistance of the head of Internal Audit and the head of Administration and report to the Board.

On conferring the appointment for the three year period 2013-2015, at its meeting of 19 April 2013 the aforementioned Committee considered it appropriate to limit the appointment of the independent auditor and foreseeing, in the event of renewal, for a maximum of two three year periods and in any event, a maximum period of nine years. At the same meeting the Committee approved proposing renewing appointment of the outgoing auditor PricewaterhouseCoopers Spa (PwC), which had fulfilled this role for 7 years, to the Board. Concomitantly, it invited the Board to supplement the governance lines of the Group.

PricewaterhouseCoopers will thus remain in office as the independent auditor of the Company and of the consolidated financial statements until the Shareholders' Meeting called to approve the financial statements for the financial year ending 31.12.2015. The audit manager for PwC Spa is Aurelio Fedele.

The consideration for each individual financial year is €7,000 for the Company's financial statements and €5,000 for the consolidated financial statement, plus VAT, subsistence and secretarial expenses invoiced at a flat rate of 5% of the fees and supervisory contribution due to CONSOB.

The financial statements of subsidiaries are also subject to an audit; PwC Spa therefore holds a similar office for the main subsidiaries.

In the conduct of its own activity the audit firm is given access to information, data, whether printed or electronic, the archives and assets of the Company and of its subsidiaries.

Section III – Internal control and risk management system

Internal control system

The internal control system comprises all the rules, procedures and organisational structures intended to ensure

- a. adequate processes for identification, evaluation, management, monitoring and reduction of the main risks
- b. the adequacy of the various process and corporate transactions, from

- a standpoint of effectiveness, efficiency and economy
- c. reliability of the financial disclosures, i.e. the basis and accuracy of accounting records and the financial reporting system
- d. the safeguarding of corporate assets
- e. compliance of operating requirements with internal and external regulations and corporate directives and guidelines.

The internal control system adopted by the Company is based on the following principles:

- a clear definition of levels of responsibility
- an efficient internal information system
- separation of operational and control activities
- standardisation of procedures
- traceability of controls
- independence of the Internal Audit Manager.

These principles seek to ensure

- a. a single centralised system of internal control;
- b. exhaustive and complete risk assessment
- c. appropriate control mechanisms to guide continuous alignment of the system with corporate management and control requirements.

Responsibility for adopting an adequate internal control system is the concern of the Board of Directors which, availing itself of the Internal Control Committee:

1. establishes guidelines for the system so that the main risks relevant to the Company and its subsidiaries are correctly identified and adequately assessed, managed and monitored, therefore verifying the compatibility of said risks with sound and correct management of the enterprise
2. identifies one or a number of directors appointed to supervise the functionality of the internal control system
3. evaluates, at least annually, the adequacy, effectiveness and actual functioning of the internal control system
4. appoints and dismisses persons responsible for internal control.

Within the scope of the Group, the system of internal control is structured according to three control and assurance levels:

- a. a first level ("line control") constituted by the series of control activities that individual operational units (or Group companies) or individual functions/departmental heads perform on their own processes. Identification of the risks and their evaluation are the primary responsibility of operational management and are considered an integral aspect of every corporate process. These activities seek to identify events which may have an impact on the results achieved in terms of business targets (for example, levels of turnover, sustainable rates of return, cost savings, customer satisfaction, etc.) and corporate targets (for example, safety, regulatory compliance, reliability of financial information, etc.)
- b. a second level of control, entrusted to the responsibility of financial controllers, functions such as risk management, Legal, Quality, Safety

and third party certification bodies in the scope of the Group's quality system, which are responsible for supervising the evaluation and control of risks to ensure consistency with corporate objectives and organisational segregation criteria and allowing adequate and effective risk monitoring

- c. a third level of control which provides an independent guarantee of the concept and operation of the internal control system and indicates the corrective actions considered necessary and/or most appropriate. Responsibility for these activities is the concern of governance and control bodies (Board of Directors, Managing Directors, Committees, Board of Statutory Auditors, Supervisory Board) and the head of Internal Audit with regard to the specific tasks assigned to them by laws and regulations.

For the purposes of rendering the internal control system effective and efficient, the Board of Directors regularly informs and updates parties with responsibility for control of business and management targets and risk management policies.

The system of internal control is subject to periodic revision and update under the supervision of the Board of Directors, with the objective of:

- ensuring the dissemination of a corporate culture based on internal controls at all levels of the organisation
- ensuring the conditions exist for sound and correct management consistent with corporate purposes and targets, such as to prevent risks and ensure that management activities focus additionally on reducing the probability of adverse events
- adopting appropriate risk management strategies according to the nature and type of risk, whether financial, industrial, regulatory/standards-related or, otherwise, strategic and operational.

Internal Auditing

The task of Internal Audit is to provide a general guarantee on the appropriateness and functioning of the processes and controls in the scope of corporate government, risk management and the internal control system.

The head of Internal Audit is appointed to ascertain, verify, evaluate and monitor effectiveness of risk management, control and management processes, both at a level of individual company/functions and overall, according to a systematic approach based on risk and which includes tests and verifications which are not purely formal but substantive.

To verify that the internal control system is always appropriate, fully operational and functioning, the head of Internal Audit:

1. is required to act independently and objectively
2. is involved in identifying horizontal operational issues in the various functions
3. has direct access to all information useful for the fulfilment of his/her office
4. proposes the corrective actions considered necessary and/or opportune and carries out follow-up activities to verify the results of the actions proposed
5. has adequate resources available to carry out the functions assigned to him/her
6. is not responsible for any operating area and does not depend

hierarchically on any head of operating areas but reports upon his/her own actions, the methods for managing risks and compliance with plans defined to contain them, to directors appointed to supervise functionality of the internal control system, the Internal Control Committee and the Board of Statutory Auditors.

Risk management and risk management policies

Guided by the Board of Directors, risk management is a central aspect of the strategic and organisational management of Augustea, intended at obtaining long term benefits for each business unit and the portfolio of all Group businesses. Risk management is understood as being an ongoing development process adding value to all activities.

The Board of Directors bears ultimate responsibility for controlling effectiveness of the risk management system. The Managing Director has general responsibility for governance and risk management, whereas the Internal Control Committee ensures, in the name of the Board, that the appropriate risk management processes are implemented.

Senior management is responsible for "day to day" management of risks and for promoting awareness of risks in the operating activities under management.

The main risks which Augustea confronts, actively monitors and manages are:

- Market risk deriving from exposure to fluctuations in chartering rates, interest rates, exchange rates and commodity prices
- credit risk deriving from potential counter-party default;
- the operating risk
- risks associated with current trends in the sectors in which the Group operates.

Augustea Holding, in its capacity as parent company, ensures actual implementation and management of risk management processes for risks which may influence the economic and financial situation of the Group and individual companies or their assets.

With the objective of aligning and coordinating the Group's management processes, Augustea Holding has prepared a set of specific guidelines to define for:

- implementing a common risk management policy, together with appropriate methodologies for identifying and assessing risks
- implementing a risk control system in the scope of a strategy for minimising risks
- monitoring risk;
- transferring unmanageable risks to the insurance market.

The specific guidelines (see Annexe II) have been defined by the Company with the objective of aligning and coordinating financial risk management policies, risks correlated with the use of derivative instruments and counter-party credit risk.

A summary of said policies is given in Annexe II. The list of guidelines and procedures adopted is set out in Annexe III.

Regulations for transactions with related parties

In line with the provisions from CONSOB in specific regulations applicable to listed companies and in compliance with the provisions of the Italian Civil Code, the Company has adopted a specific procedure which identifies

the methods for approving and implementing transactions conducted by the Company or by its subsidiaries with related parties; the purpose is to ensure transparency and propriety both substantive and procedural in said transactions.

The procedure sets out in substance the provisions of the CONSOB Regulations and, from the standpoint of improved protection and effectiveness, extends the system for transactions conducted directly by Augustea Holding to all transactions conducted by its subsidiaries and other Group companies.

The procedure distinguishes between "significant" and "non-significant" transactions, providing for differentiated degrees of transparency and implementation procedures given the type and the scope of the transaction.

"Non-significant" transactions are those with a limited risk profile for the Company and for the Group, including (i) transactions performed between wholly owned companies; (ii) typical or habitual transactions; (iii) transactions governed by standard conditions or at arm's length conditions; (iv) transactions for which the consideration is fixed on the basis of official market quotations or tariffs defined by the Public Authorities.

On the other hand, deemed at all times to be "significant" transactions are (i) atypical or unusual transactions; (ii) transactions with a value exceeding €500,000 except for those presenting a limited risk profile for the company and the Group as defined above; (iii) other transactions which the Internal Control Committee considers should be submitted for examination by the Board.

In general, for all significant transactions, a central role is performed by the Internal Control Committee which is called on to express a reasonable non-binding opinion in the interests of the Company in performing the transaction and the advantages and substantive propriety of the relative conditions.

A preliminary examination by the Committee is always required for transactions exceeding €50,000 which involve a director, a statutory auditor or a manager with strategic responsibility, including their relatives.

Specific rules have been adopted for transactions in which a director or a statutory auditor has an interest, on own behalf or that of third parties. When a director is involved directly or through an intermediary in a transaction with related parties, he/she must promptly inform the Board of the nature, the terms, the source and the scope of his/her own interest and refrain from participating in the relative Board Meeting.

Likewise, when a statutory auditor is involved directly or through an intermediary in a transaction with a related party, he/she must promptly notify the Board of Statutory Auditors and the Board of Directors of the nature, the terms, the source and scope of his/her interest.

For the most significant transactions, the Board of Directors has exclusive concern to approve their conclusion.

To avoid conclusion of any transaction with a related party under conditions other than those which would probably be negotiated between unrelated parties, both the Internal Control Committee and the Board of Directors have a leave of recourse – according to the nature, value or other characteristics of the transaction – to the assistance of one or more independent experts, selected from among parties of established

professionalism and competence.

The procedure also defines the timing, responsibilities and the verification by employees of Augustea and bodies involved in the procedures and the flow of information that must be met for proper application of the standards.

Processing of corporate information

The Company has adopted "Internal regulations for management and processing of confidential information and for external communication of information documents" (the "Regulations") to protect confidentiality, while ensuring that information for third parties on corporate data, if authorised, is truthful, accurate and comprehensive.

The Regulations incorporate standards for processing reserved and confidential information and the methods for keeping a register of persons having access to said privileged information.

The main features of the Regulations are:

- a definition of what constitutes reserved and confidential information
- identification of persons subject to the Regulations
- implementation of procedures for management of privileged information.

Corporate representatives, directors, members of the Board of Statutory Auditors and employees of Augustea Group companies and their subsidiaries and third parties, are bound to maintain as reserved all documents and information of which they may acquire knowledge in executing their professional duties.

Manager responsible for preparing the corporate financial statements

From the standpoint of an integrated organisational, operational and corporate governance configuration (more simply, the internal control model) adopted, the Company has considered it appropriate in the scope of delegated powers conferred on the Manager responsible for the "Accounting & Tax" function, ("the Administration Manager") to specify, the responsibility and the consequent powers for preparing and producing accounting documents.

Specific guidelines have been adopted, based on the provisions of the Consolidated Finance Law concerning the "Manager appointed to prepare corporate accounting documents" and which define the organisational and general procedures intended to describe

- the role and functions attributed to the Administration Manager for documents and communications regarding accounting information, including infra-annual ones
- the main information flow and method of coordinating said activities with the administrative and control bodies of the company.

The Head of Administration is charged with preparing corporate accounting documents and coordinating and supervising the departments concerned. His/her responsibility in terms of function, organisation and matter within Augustea Holding also extends to subsidiaries of the latter. Hierarchical responsibility is limited to the specific structure of which he/she is the head.

The guidelines adopted assign to the Head of Administration:

- preparing administrative and accounting procedures necessary for forming corporate financial statements (company and consolidated financial statement filings, including infra-annual), and their

- appropriateness and effective application;
- compliance of said documents with the applicable accounting principles
- compliance of corporate accounting documents with the entries in the accounting books and records and their fitness for providing a truthful and accurate reflection of the economic, financial and assets situation of Augustea Holding Spa and enterprises included within the scope of consolidation
- the comprehensiveness of contents and in general, abidance by regulations applicable to accounting documentation
- the reliability of contents of the management report.

It should, however, be specified that the responsibility for the integrity and accuracy of data remains an individual responsibility within the scope of corporate organisation, that is of the individual areas producing the data, monitoring it and feeding it into flows of information governed by administrative and accounting procedures.

Likewise, the responsibility assigned does not replace that of directors who approve and sign the draft financial statements for submission to the General Meeting, or that of members of control bodies and other parties with concern in such matters.

As a consequence of the responsibilities assigned, the Administration Director must issue two separate certifications:

- a. **a declaration of matching**: the deeds and notices of the company/Group on accounting information, including infra-annual must be supported by written declarations signed by the Administration Manager, attesting to their matching documentary entries in accounting books and records
- b. **certification**: a specific report appended to annual financial statements, consolidated financial statements and the half yearly report, certifying:
 - the adequacy and effective application of the procedures set forth under the previous point throughout the period to which the documents refer
 - that the documents were prepared in conformity to current applicable accounting principles
 - a match of the documents with the entries in the accounting books and records
 - the capacity of the documentation to provide a truthful and accurate representation of the assets, economic and financial situation of the Company and all enterprises included in the scope of consolidation
 - that the management report includes a reliable analysis of performance and results of management and the situation of the Company and that of all companies included in the scope of consolidation.

The certification set forth under the foregoing point is taken and dealt with as an item on the agenda of the Board Meeting approving the draft financial statements.

Section IV – Corporate Compliance and Social Accountability

Code of Ethics

The complexity of the situations in which the Augustea Group operates, the challenges of sustainable development and the requirement to pay due consideration to the interests of all legitimate stakeholders, increase the importance of clearly defining the values and responsibilities acknowledged, accepted, endorsed and assumed by the Augustea Group in contributing to the construction of a better future for everyone.

Mindful of the significant role, given the scope and extent of its activities performed in the market, and the economic growth and well-being of persons employed and cooperating with the Group and the community in which it operates, Augustea has founded its own corporate governance system on the basis of a coordinated and consistent set of values, principles and rules of conduct which apply both to the internal organisational structure and to relations with third parties.

These values are defined in the Code of Ethics, which reflects changes in the overall regulatory background, includes problems of human rights and sustainability and ensures abidance by international best practices.

All those who work and cooperate with Augustea – at all levels – are required, in the scope of their own functions and responsibilities, to observe these principles and ensure that they are respected as crucial drivers of effectiveness, reliability and the reputation of Augustea and so the success of the Group and enhancement of the social context in which it operates.

Augustea Holding approved its own Code of Ethics by resolution of 26 April 2012.

The Code applies to all subsidiary companies in Italy and abroad.

The representatives identified by Augustea in corporate bodies of affiliated companies, consortia and joint ventures, promote the principles and contents of the Code within the scope of their own remits.

Through its structure the Company verifies abidance by the Code by providing adequate resources and information, prevention and control procedures and by assuring transparency of transactions and conduct and adoption of corrective actions wherever necessary.

Organisation, Management and Control Model pursuant to Legislative Decree No. 231/2001

Legislative Decree No. 231 of 8 June 2001 introduced into Italian domestic law the direct liability of companies before the criminal courts for offences committed – in Italy or abroad – in the interests or for the benefit of the company, by persons in key positions (article 5 letter a), that is persons who represent, direct or manage the company or one of its organisational units, with financial and functional autonomy and persons who, even *de facto*, exercise management and control of the company and/or of persons in subordinate positions (article 5 letter b), that is persons subject to the management or oversight of one of the previously indicated parties.

Adoption of the “231 Model” as an organic set of principles, rules, organisational structures, specific procedures and control instruments, represents, pursuant to law, a potential condition for relief from the aforementioned liability given an organisational structure which is characterised by a structural and organic segmentation of roles and responsibilities, transparency and traceability of decision-making steps in the scope of processes at risk of offences, and a supervisory system entrusted to an independent body and an appropriate disciplinary system.

In order to prevent, insofar as possible, commission of offences foreseen in the Decree, at the end of 2010 the Board of Directors of the Company implemented, a proposal on adopting the "231 Model" by Augustea Holding and its operating subsidiaries, according to their own specific profiles and without prejudice to their management autonomy when taking initiatives and exercising control.

The Model distinguishes the responsibilities of individuals from those of the companies and grants to each party/department the correlated responsibilities, differentiated through an attribution of relative duties.

From this standpoint, the Model can be classified as an integral aspect of the broader policy of governance adopted, attentive to abiding by ethical principles of corporate management that have been introduced by adoption of the Code of Ethics and which forms an integral part and a general principle of the 231 Model and, as such, may not be departed from.

The synergy between the Code of Ethics and the 231 Model are evidenced in assignment to the Supervisory Board of the role of guarantor of the Code with the task of promoting and verifying its implementation.

Augustea pays significant attention to implementation of the Model, above all in terms of enhancing corporate procedures, staff training and deployment of specific control programmes.

Training and communication initiatives in relation to the Model, which are differentiated according to recipients, are provided too for third parties and the market.

The Model will be updated and supplemented over time, to reflect both regulatory changes and organisational development at corporate level.

On the date of this Report, the following Group Companies have adopted the Model:

- Augustea Holding Spa, by resolution of the Board of Directors of 10 September 2012
- Augustea Spa, by resolution of the Board of Directors of 22 November 2012
- Augustea Atlantica Spa, by resolution of the Board of Directors of 30 November 2012
- Augustea Ship Management Srl, by resolution of the Board of Directors of 29 July 2014.

At the same time as adoption of the Model, the Board appointed a Supervisory Board (OdV in the Italian acronym), selecting its members from professionals with proven legal, economic and corporate organisational experience.

With the sole exception of Augustea Ship Management, of which the Supervisory Board comprises a single member, the Supervisory Boards of all companies are collegiate.

During 2014, the Supervisory Board met seven times, with the attendance of all its members and the support of the head of Internal Audit and internal functions from time to time concerned.

These meetings addressed

- the staff training plan;
- an analysis of the project for unification of technical offices of the Group, organisational changes and the correlative risks

- an analysis of issues pertaining to application of Legislative Decree 81/2008 (Consolidated law on health and safety in the workplace);
- amendments and updates of the Organisation Model ex L. 231/01 regarding amendments to the corporate governance system and assessing the consistency of the latter with the regulatory changes made and the amendments proposed during the various meetings
- an analysis of existing procedures, with ad-hoc comparisons of responses to issues notified by Studio Imperiali during the risk assessment conducted
- possible amendments of the composition of the Supervisory Boards of the various Group companies in connection with organisational changes proposed.

During the internal meetings of the Supervisory Board and the controls performed, no anomalies came to light that required alerting the Board of Directors.

For all companies the mandate of the Supervisory Board expires on the date of approval of the financial statements for the financial year ending on 31.12.2014.

Anti-corruption

Augustea rejects corruption as an instrument for conducting its business. Under no circumstances will corruption or attempted corruption of the holders of public service offices, civil servants or persons providing public services or of private citizens, be tolerated. In particular, no person shall offer, promise or give cash or other benefits for the purposes of obtaining unfair advantages for the Group or for themselves. In addition, no person shall request money or other benefits for the performance of services for which they are responsible.

In 2011, for the purpose of promoting its own commitment on this theme, Augustea voluntarily extended its compliance programme to cover any risks of corruption by adopting precise anti-corruption guidelines which define a systematic reference framework. The policy adopted ensures total abidance by the Code of Ethics and was developed in line with the current applicable anti-corruption legislation and international conventions (including Legislative Decree No. 231 of 8 June 2001 referred to above, and the UK Bribery Act of 8 April 2010).

SA8000:2008®

Augustea is committed to ensuring full compliance with international standard SA8000: 2008®, which is the most important reference point acknowledged at an international level for socially responsible management of human resources.

This standard implies conformity to new social requirements oriented towards increasing the competitive capacity of organisations that voluntarily offer guarantees of the ethical nature of their own production chain and production cycle, for example in respecting human rights and those of workers and the provision of adequate protection against child labour and ensuring health and safety in the work place.

In May 2012, the Company implemented a compliance programme, and adopted a Social Accountability Policy to protect the fundamental human rights of workers.

In December of the same year certification by RINA Services Spa was obtained for the social accountability management system.

Annexe I – Governance and control bodies

The tables referred to in the previous paragraphs on the composition and frequency of meetings of the control and governance bodies are set out hereunder.

Table 1 – Structure of the Board of Directors

Members	Executive	Non-executive	Independent	Meetings and attendance					
				28 March	28 May	16 September	13 November	11 December	%
Chairman									
Lucio Zagari (Chairman)	x			✓	✓	✓	✓	✓	100%
Managing Directors									
Raffaele Zagari (CEO)	x				✓	✓	✓	✓	80%
Maurizio Pavesi (CFO)	x			✓	✓	✓	✓	✓	100%
Directors									
Luigi Chessa (*)		x	x	✓					100%
Roberto Donnini (**)		x	x		✓	✓	✓	✓	
Antonio Garzilli		x	x	✓	✓	✓	✓	✓	100%
Emanuele Marcianò		x	x	✓	✓	✓	✓	✓	100%
Franco Mosca (1st appointment 28/6/2013)		x	x	✓	✓	✓	✓	✓	100%
Number of meetings in 2014									5
Average duration of meetings									2h 15m
Average attendance percentage									97%
Average independents' attendance percentage									100%
(*) resigned on 02/04/2014									
(**) coopted on 28/05/2014									

Table 2 – Control and Risks Committee

Members	Meetings and attendance 2014			
	28 May	16 September	11 December	%
Chairman				
Emanuele Marciano (non-executive, independent)	x	x	x	100%
Directors				
Franco Mosca (non-executive, independent)	x	x	x	100%
Maurizio Pavesi (executive CFO)	x	x	x	133%
Number of meetings in 2014				3
Average duration of meetins				1h 30m
Average attendance percentage				100%

Table 3 – Remuneration and Appointments Committee

Members	meetings and attendance 2014				%
	26 March	28 May	16 September	11 December	
Chairman					
Luigi Chessa (non-executive, independent)	x				100%
Antonio Garzilli (non-executive, independent)	x	x	x	x	100%
Directors					
Roberto Donnini (non-executive, independent) ^(*)		x	x	x	100%
Directors (at the Chairman's invitation)^(**)					
Franco Mosca (non-executive, independent)		x			100%
Emanuele Marcianò (non-executive, independent)	x	x			100%
Number of meetings in 2014					4
Average duration of meetings					1h 15m
Average attendance percentage					100%

(*) co-opted by the Board of Directors 28/05/14 appointment ratified by the Shareholders' Meeting of 30/06/2014

(**) In the capacity of independent directors, members of the Control and Risks Committee

Table 4 – Board of Statutory Auditors

	Board of Statutory Auditors	Board of Directors
Chairman		
Mario d'Onofrio	100%	80%
Acting auditors		
Giovanni De Leva	100%	100%
Roberto Perrone Capano	100%	100%
Number of meetings in 2014		5
Average duration of meetings		3h
Average attendance percentage		100%
		5
		2h 15m
		93%

Annexe II – Risk policies

Financial risks

Augustea adopts a centralised model for management of finance and treasury through the identical functions of the Holding.

These functions are committed to active management of financial risks by evaluating and controlling the exposure of the Group, either at a consolidated level or that of individual companies, and by defining methodologies and instruments capable of assisting each company in identifying and measuring their own exposure.

Risk assessment and risk monitoring activities focus essentially upon

- a. **on interest rate risks** to achieve optimum hedging for the purposes of stabilising financial expenses in a manner consistent with financial structure objectives defined and approved in the business plan
- b. **on exchange rate risks**, for the purposes of containing the impact of fluctuations in exchange rates on the economic results through the combined effect of the economic risk (different significance of revenue and costs in foreign currency compared with the rates when the price conditions were defined), the transactional risk (conversion of trade and financial receivables and debts in foreign currency) and the transfer risk (conversion of company assets and liabilities within the scope of consolidation and preparation of financial statements in a working currency other than the Euro)
- c. **on liquidity risks**, with the objective of maintaining an appropriate level of liquidity for the Group and minimising the relative opportunity cost and maintaining stability in terms of the duration and composition of debt.

Derivative financial instruments

Recourse to derivative financial instruments seeks to minimise the net risk correlated to chartering rates, commodity prices, exchange and interest rate risks.

Transactions in derivatives are permitted exclusively for the purposes of hedging, evaluating the counter-party risk for each transaction in addition and on an ongoing basis if the latter is not performed through a clearing house. In addition, the hedging structure selected must not pose additional financial or operating risks.

For these reasons, derivative financial instruments listed on regulated markets are always preferred to over the counter derivatives, and plain vanilla structures are preferred to more complex ones in which trading is in any event limited to extraordinary situations for limited periods of time.

Transactions in derivatives may be conducted exclusively with banking counter-parties with high credit ratings with a view to sharing risk; so a non-banking counter-party may not represent more than a percentage of the total of transactions.

All trading in derivative instruments must be conducted with different counter-parties and the contracts are signed on the basis of the best counter-party cost/risk combination.

A set of guidelines and procedures defines the responsibility for control and reporting lines for the CFO, the Board of Directors and Internal Audit.

Counter-party and credit risk

Commercial transactions in commodities and of a financial nature expose the Augustea Group to a credit risk, defined as the possibility that an unexpected variation in the credit rating of a counter-party to which there is exposure may generate a corresponding impact on the credit position in terms of non-payment, insolvency (risk of default) or of variation in market value (spread risk).

Recent macro-economic changes, in the light of the current instability of financial markets and the global economic crisis, have demonstrated potential exposure to loss if a counter-party fails to fulfil obligations assumed or to pay amounts due.

With a view to ensuring management of said risk, an internal system has been implemented for evaluating the credit rating of any new counter-party prior to initiating any transactions.

Potential charterers are ranked on the basis of an internal process involving the Chartering, Administration, Finance, Control and Legal Departments.

The vetting methodology assigns a score to individual customers on the basis of publicly available financial data and coefficients relating to their assets, profitability and liquidity. On the basis of these findings, each counter-party is assigned in internal rating, which allows ranking of them in appropriate risk categories. The evaluations are also compared with those provided by specialist external sources.

The Chartering department may negotiate exclusively with accepted counter-parties, excluding (i) primary counter-parties, (ii) short-term contracts within a time limit (currently less than six months); (iii) voyage based contracts.

Individual business units are responsible for credit risk management linked to normal conduct of their business, as well as managing disputes and debt collection, whereas the Finance function of the Holding company is responsible for evaluating recourse to supplementary protection in the insurance market.

Risk Appetite

The Augustea Group operates in a capital-intensive Industry characterised by its highly cyclical and volatile nature. In this context, the Group intends to maintain and constantly improve its own positioning in the market and management is committed to generating positive returns without compromising the mission and vision of the Group, in accordance with a prudent approach that will allow the worst market conditions to be borne without further capital contributions from shareholders.

The Board – consistent with the business model and strategic plan – defines (i) the risk appetite, (ii) the tolerance thresholds, (iii) risk governing policies and (iv) reference processes necessary to define and implement them.

With the support of the Risk and Control Committee it periodically monitors exposure to risk and any deviations from risk appetite, having set the tolerance threshold to ensure adequate operating margins in any event including in conditions of stress that are within the maximum acceptable risk.

The main risks identified refer to liquidity, leverage, use of derivatives for hedging, concentration of credit and counter-party risks, interest rates, insurance and country risks.

For each category appropriate qualitative and quantitative parameters have been defined that are differentiated according to business division/line; the use of a specific report (“Risk Appetite Triggers”) – which is discussed quarterly by the Control and Risks Committee – allows identification of the management action necessary to reduce the risk taken on to within predetermined objectives and at the same time orient definition and update processes and watches of the internal control system.

Annexe III - Guidelines, regulations and policies for corporate governance

1. *Code of Ethics*
2. *Anti-bribery and anti-corruption policy*
3. *Management of notifications to the head of Internal Audit*
4. *Related party transactions*
5. *Risk Management*
6. *Internal regulations for management and processing of confidential information and external communication of documents and information*
7. *Tax risk management*
8. *Guidelines on preparing documents and communications on accounting information*
9. *Delegation of functions*
10. *Regulations of the Internal Control Committee*
11. *Regulations of the Remunerations Committee*
12. *Guidelines for acquisition of goods, services and consultancy (procurement) [in the course of being updated]*
13. *Corporate specification on the use of information technology resources*
14. *Guidelines on management of email services*
15. *Financial Internal Control System*
16. *Financial Risks*
17. *Budgeting & Forecasting*
18. *Interest and exchange rates risk*
19. *Derivatives*
20. *Cash Management*
21. *Organisation, management and control Model pursuant to Legislative Decree No. 231/2001*
22. *Specific guidelines for the Shipping Division*
 - Charter vetting procedure (procedure for evaluating counter-party risk)
 - Commercial and risk management policy A. Pacific Pte Ltd.
23. *Operating Procedures specific to Administration, Finance and Control*
 - Financial Management Information System
 - Financial Reporting - Monthly EBITDA report
 - Financial Reporting - Quarterly Report
 - Financial Reporting - Vessels' turnover
 - Financial Reporting - Vessel Running Costs
 - Accounting Manual
 - Interest and Exchange Rate Risk
 - Cash Management
 - Relations with banks
 - Bank account

- Guarantees

24. *Procedures specific to Human Resources and Social Accountability*

- Human Resource Management
- Selection of staff
- Staff career development
- Disciplinary measures

25. *Operating procedures operative specific to Corporate & Legal*

- Procedure for concluding contracts