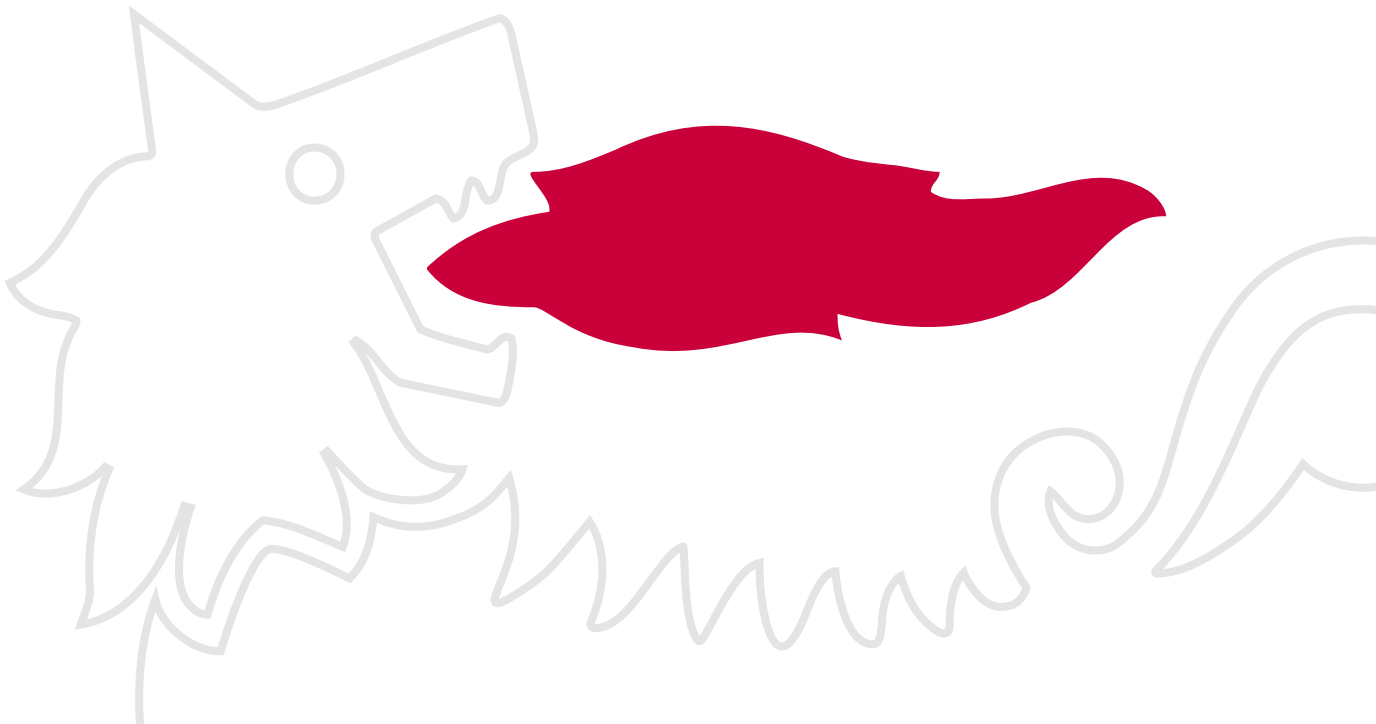


eni's proposals on
Corporate Governance



eni's proposals on Corporate Governance

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1. Introduction

1.1. Objective

This study is intended as a contribution to the debate on Corporate Governance of listed companies, drawing on an analysis of foreign best practices which are still not reflected in the Italian general system and to which **eni** pays particular attention due to the international presence of its business.

The results of the analyses, filtered through the Company's experience, have led to the drafting of some proposals (legal provisions or self-regulatory provisions) that may contribute to the considerations on the measures to increase the efficiency of the Italian system. This study, intended to be an essential and concrete guideline, is not meant to substitute for the institutions and organisations called to establish rules or recommendations, nor does it outline proposals that are in contradiction with or opposition to the Corporate Governance Code promoted by Borsa Italiana (the Italian Stock Exchange), but is meant to offer new things to ponder/food for thought concerning issues of Corporate Governance. The study is the result of work carried out by the Company, with the support of a Commission both of external¹ experts and of the Company established by **eni** in November 2010.

1.2. Methodology

The analysis was conducted through an examination of the Corporate Governance Codes of the major reference countries (France, Germany, United Kingdom, Spain, USA and Canada), as well as studies conducted by the most representative institutions and associations (such as the European Commission, the UK Financial Services Authority, the U.S. Securities and Exchange Commission, the Organisation for Economic Co-operation and Development and the European Corporate Governance Institute). To investigate certain aspects, other sources (e.g., studies or websites) were used as well.

The analysis reviewed with particular attention the role, composition and functioning of the Board of Directors and its Committees. With reference to the composition of the Board, a specific analysis was conducted to verify the current professional profiles of members of the Boards of Directors in the countries concerned. Within the context of the mechanisms for appointing members to the Board of Directors, a specific investigation was then dedicated to the staggered board in order to verify its potential and compatibility with the Italian legal and self-regulatory framework. Finally, the control system, relations with shareholders and the shareholders' meeting were considered. The analysis led to a singling out of various proposals, taking into account the challenges connected with the transposition into the Italian system, the advantages and possible implications.

(1) Lamberto Cardia (former Chairman of Consob) and Massimo Capuano (former Chief Executive Officer of Borsa Italiana).

2. Proposals

1.3. Proposals

The proposals were elaborated with reference to the so-called traditional model of corporate governance that, notwithstanding the role of the Shareholders' Meeting, assigns the Company's management to the Board of Directors, the supervisory functions to the Board of Statutory Auditors and the auditing of the financial statements to an independent audit firm. Most of the proposals could be adopted by companies in a self-regulation process. Other proposals, however, could be introduced only through legal provisions, for the purpose of overcoming some of the conflicts with other provisions or to ensure greater enforcement. In any case, the self-regulatory proposals have been formulated by bearing in mind the principle of "one-size-does-not-fit-all", so as to enable a diversification depending on the size among listed companies. Otherwise, small firms would be charged with disproportionate costs or burdens of Governance.

In order to facilitate a quick classification, the proposals have been organised by categories of topics: Board of Directors, the Chairman, Chief Executive Officer, Secretary of the Board, conflicts of interests, Committees, controls, shareholders, Institutional Investors and other stakeholders, the Shareholders' Meeting.

2.1. List of proposals

Board of Directors

- **Role**
Strengthening the strategic role of the Board
- **Appointment**
Professional requirements for the directors
Separate vote on directors
Staggered board
- **Composition**
Diversity
- **Ethics**
Standards of conduct
- **Self-evaluation**
Individual evaluation of Board members
Intervention by an independent facilitator
- **Training**
Induction program
Ongoing training

Chairman

- Role
- Independence
- Report to the Shareholders' Meeting

Chief Executive Officer

- Appointment
- Compensation
- Prohibition of cross-directorship

Secretary of the Board of Directors

- Role
- Appointment

Conflicts of interests

- Limits on consulting assignments

Committees of the Board of Directors

- **Composition**
Chairs of Committees
Periodic renewal of the members of Committees
- **Internal Control Committee**
- **Nomination Committee**
Succession plans for management
- **Corporate Governance Committee**

Control system

- **Rationalization**
Internal Control Committee and the Board of Statutory Auditors
Watch Structure and the Board of Statutory Auditors
- **Risk Management**
Risk Committee
Chief Risk Officer
- **Cooling-off period**

Relations with shareholders and other stakeholders

- **Electronic shareholders' forum**
- **Voting policies of Institutional Investors**
- **Employees**
- **Website**

Shareholders' Meeting

- **Shareholders' Meeting formalities and procedures**
- **Vote**
Separate vote

2.2. The proposals in detail ²

	Proposal	Regulatory status		Changes to be made		Comments
		Legal provisions	Borsa Italiana Corporate Governance Code provisions	Legal provisions	Self-regulatory provisions	
Board of Directors	A. Role					
	1. Strengthening the strategic role of the Board. Ensure that the Board of Directors maintain a strategic role, avoiding burdening the functions with formal fulfilments that force it to meet too often. At the same time, increase information flows before and after Board meetings to enable the directors to act in an informed manner.	<ul style="list-style-type: none"> Artt. 2380-bis and 2381 C.C.* (Responsibilities of the Board of Directors). 	<ul style="list-style-type: none"> Art. 1 (Role of the Board of Directors) Corp. Gov. Code. 	-	X	-
	B. Appointment					
	2. Professional requirements for the directors. Directors should, in particular, have managerial experience.	<ul style="list-style-type: none"> Art. 2387 C.C. (Requirements of the directors). Art. 147-ter Consolidated Law on Finance (Election and composition of the Board of Directors). Consolidated Law on Banking and other regulations in the field. 	<ul style="list-style-type: none"> Art. 6 (Appointment of Directors) Corp. Gov. Code. Comments on Art. 2 (Composition of the Board of Directors) Corp. Gov. Code. 	X (2)	X (1)	The proposal should be introduced as a self-regulatory provision. Should companies not comply with such a self-regulatory provision, it might be introduced as a legal provision. In any case the involvement of the Board of Statutory Auditors would be appropriate for monitoring the evaluation of requirements, as is also the case for the independence requirements. The general categories of requirements expected for the officers of banks and financial intermediaries can be used as reference. It is necessary to consider a sanction in the case of failure to meet the requirements.
	3. Separate vote on directors. Shareholders should be able to vote for each individual candidate in the election of the Board of Directors.	<ul style="list-style-type: none"> Art. 2368 C.C. (Shareholders' Meeting Functioning). Art. 147-ter Consolidated Law on Finance (Election and composition of Board of Directors). 	<ul style="list-style-type: none"> Art. 6 (Appointment of Directors) Corp. Gov. Code. 	X	X	The provision would allow Institutional Investors to comply with any voting policy that does not allow voting on the entire slate. Coordination is needed with the provisions relating to the list voting system. A voting system with preferential vote could be introduced.
4. Staggered board. Phase the ends of the directors' mandate in order to promote stability and continuity in management, encouraging the progressive renewal of the directors.	<ul style="list-style-type: none"> Art. 2383 C.C. (Appointment and removal of directors). Art. 2386, paragraph 3 C.C. (Replacement of directors). Art. 147-ter Consolidated Law on Finance (Election and composition of the Board of Directors). 	<ul style="list-style-type: none"> Art. 3 (Independent Directors) Corp. Gov. Code. Art. 6 (Appointment of Directors) Corp. Gov. Code. 	X	-	This proposal must be coordinated with the provisions on the list voting, the minimum number of independent directors and gender diversity.	

(2) While reading the proposals it should be taken into account that: (a) the proposals are only related to the traditional Italian model of management and control; (b) the proposals of self-regulatory nature do not necessarily imply changes of Borsa Italiana Corporate Governance Code, but may be introduced in other forms; (c) numbers in the columns "changes to be made" indicate the order of preference; (d) it may be suitable to diversify the self-regulatory recommendations, distinguishing the larger companies from the others.

* The legend of terms is at the bottom of the document.

	Proposal	Regulatory status		Changes to be made		Comments
		Legal provisions	Borsa Italiana Corporate Governance Code provisions	Legal provisions	Self-regulatory provisions	
Board of Directors	C. Composition					
	5. Diversity. Ensure diversity in the composition of the Board of Directors, both in gender and in variety of experiences. Opportunity for the presence of foreign managers or with international experience for companies with an international vocation.	On June 28, 2011 a law amending the articles 147-ter and 148 Consolidated Law on Finance was approved in order to grant a certain percentage of chairs in the Board of Directors and in the Board of Statutory Auditors to the less represented gender.	-	-	X	The fact that the gender diversity is subject of specific legislation does not exclude the possibility of a self-regulatory intervention. The presence of foreign managers could lead to operational problems due to dual languages.
	D. Ethics					
	6. Standards of conduct. Give special attention in the Corporate Governance Code to principles of proper conduct of the directors.	General reference in the Leg. Decree no. 231/2001 to Code of Ethics (an essential element of the control system).	-	-	X	The Watch Structure should monitor compliance with these principles and report any violations to the Board of Statutory Auditors and the Shareholders' Meeting.
	E. Self-evaluation					
	7. Individual evaluation of Board members. The Board's evaluation should not only address the collective body, but the individual members as well.			-	X	-
	8. Intervention by an independent facilitator. The Board should be assisted by an independent facilitator.	-	• Art. 1.C.1. (g) (Self-evaluation of the Board of Directors) Corp. Gov. Code.	-	X	Given the costs, the proposal should be limited to larger companies. It may be difficult to identify a facilitator at an adequate level who does not have significant relationships with the company.
	F. Training					
	9. Induction program. Provide for a detailed training program for new directors and statutory auditors with respect to rules of Governance as well.			-	X	
10. Ongoing training. Provide for a continuing induction program of the directors and statutory auditors.	-	• Art. 2.C.2. (training tasks assigned to the Chairman) Corp. Gov. Code.	-	X	-	
Chairman	11. Role. In-depth detailing of the functions of the Chairman as a "leader of the Board".			-	X	Exclusion of operating proxies (he/she must be a "Chairman" and not a "President").
	12. Independence. Provide that the Chairman meets on appointment the independence requirements.	• Art. 2381 C.C. (Duties of the Chairman).	• Art. 2 (2.P.4; 2.P.5. and Comment) (Provisions relating to the Chairman) Corp. Gov. Code.	-	X	The independence requirement may be provided only for public companies with dispersed ownership structure.

	Proposal	Regulatory status		Changes to be made		Comments
		Legal provisions	Borsa Italiana Corporate Governance Code provisions	Legal provisions	Self-regulatory provisions	
Chairman	13. Report to the Shareholders' Meeting. The report should explain the Corporate Governance measures adopted with particular reference to the role and effectiveness of the Board of Directors. The report could be carried out by the Lead Independent Director, if appointed.	• Art. 2381 C.C. (Duties of the Chairman).	• Art. 2 (2.P.4.; 2.P.5. and Comment) (Provisions relating to the Chairman) Corp. Gov. Code.	-	X	Overlap with the self-evaluation must be avoided.
Chief Executive Officer	14. Appointment. If the by-laws so provide, the CEO should be identified in the list proposed by the shareholders and thus appointed by the Shareholders' Meeting to this office.	• Art. 2381 C.C. (Appointment of the CEO by the Board of Directors).	-	X	-	The introduction of the provision under consideration would require a review of the various law provisions, including those concerning the composition of the lists, those on the distribution of responsibilities between the Shareholders' Meeting and the Board. The provision should be limited to companies with concentrated ownership, where the measure would allow adjustment to fit reality.
	15. Compensation. If the CEO is appointed by the Shareholders' Meeting, the latter should be able to determine the compensation, including severance payments, which should not exceed a maximum (severance pay cap).	• Art. 2389, paragraph 3 C.C. (Remuneration of directors).	• Art. 7 (Remuneration of directors) Corp. Gov. Code.	X	X	
	16. Prohibition of cross-directorship. Provide that the CEO of one company cannot be a director of another company (not belonging to the same group) whose CEO is a director of the former company.	-	• Art. 3.C.1. (f) (Independent Directors) Corp. Gov. Code.	X (2)	X (1)	
Secretary of the Board of Directors	17. Role. Specify the functions and duties of the Secretary.	-	-	-	X	The role of the Secretary should not overlap with that of the Chairman and the Secretary should therefore act under his guidance. The Secretary should, in particular, have the function of ensuring an adequate information flow to directors before and after the Board meetings.
	18. Appointment. Provide requirements for the appointment of the Secretary and a limit on the number of offices in other group companies.	-	-	-	X	
Conflicts of interests	19. Limits on consulting assignments. The members of the Board of Directors (and of the control body) should not take on consulting assignments for competitors.	• Art. 2390 C.C. (Prohibition of competition). • Art. 2391 C.C. (Interests of directors).	• Art. 9 (Directors' interests) Corp. Gov. Code.	X (2)	X (1)	It is necessary to evaluate what sanction should be provided. In the case where disqualification is expected, it is possible to ascribe it to the non-compliance with the prohibition, or to permit, in advance, the choice between the position of director and the task of consulting.

	Proposal	Regulatory status		Changes to be made		Comments
		Legal provisions	Borsa Italiana Corporate Governance Code provisions	Legal provisions	Self-regulatory provisions	
Committees of the Board of Directors	A. Composition					
	20. Chairs of Committees. The Committees' Chairmen (in particular of the Internal Control Committee) should be independent directors elected by the minorities.	• Art. 147-ter, paragraph 4 Consolidated Law on Finance (Independence requirements of directors).	• Art. 3 (Independent Directors) Corp. Gov. Code. • Art. 5 (Internal Committees of the Board of Directors) Corp. Gov. Code.	-	X	-
	21. Periodic renewal of the members of Committees. The proposal is aimed at avoiding the creation of over-reliance on certain directors, at allowing for bringing in new contributions and sharing the commitment of participation among various Committees.	-	-	-	X	It is necessary to avoid the loss of skills, pre-existing or acquired, and maintain, somehow, the skills now required for the Internal Control Committee. The rotation could be partial and is to be carried out at the end of three years in office.
	B. Internal Control Committee					
	22. Strengthening the role of the Internal Control Committee on matters regarding risks.	-	• Art. 5 (Internal Committees of the Board of Directors) Corp. Gov. Code. • Art. 8 (Internal Control System) Corp. Gov. Code.	-	X	-
	C. Nomination Committee					
	23. Succession plans for management. Attribute to the Nomination Committee also a consultation function in the definition of succession plans for managers appointed by the Board of Directors.	• CONSOB Notice No. DEM/11012984 of 24 February 2011: Recommendations concerning the succession plans for the CEO.	• Art. 5 (Internal Committees of the Board of Directors) Corp. Gov. Code. • Art. 6 (Appointment of directors) Corp. Gov. Code.	-	X	In order to avoid increasing the number of Committees, the functions of the Nomination Committee may be assigned to an existing Committee (e.g., the Compensation Committee).
D. Corporate Governance Committee						
24. The Committee has advisory and proposing functions to the Board in setting Corporate Governance policies and in evaluating their implementation.	-	• Art. 5 (Internal Committees of the Board of Directors) Corp. Gov. Code.	-	X	In order to avoid increasing the number of Committees, the functions of the Corporate Governance Committee could be assigned to an existing Committee (e.g., the Internal Control Committee).	
Control system	A. Rationalization					
25. Internal Control Committee and the Board of Statutory Auditors. Rationalize the functions of the two bodies in order to avoid overlap. For smaller companies, optionality of the ICC if its functions are performed by the Board of Statutory Auditors.	• Art. 149 Consolidated Law on Finance (Duties of the Board of Statutory Auditors). • Leg. Decree no. 39/2010.	• Art. 8 (Internal Control System) Corp. Gov. Code. • Art. 10 (Statutory Auditors) Corp. Gov. Code.	-	X	-	

	Proposal	Regulatory status		Changes to be made		Comments	
		Legal provisions	Borsa Italiana Corporate Governance Code provisions	Legal provisions	Self-regulatory provisions		
Control system	26. Watch Structure and the Board of Statutory Auditors. Allocate functions of the Watch Structure to the Board of Statutory Auditors for smaller companies.	• Leg. Decree no. 231/2001 (Artt. 6 and 7).	• Confindustria Guidelines.	Regulatory intervention may be needed to clarify the possibility of assigning to the Board of Statutory Auditors the tasks of the Watch Structure also to pass the case-law.	X	Confindustria, in its guidelines, considers it is impossible to assign to the Board of Statutory Auditors the functions of the Watch Structure in relation to certain offences for which the company's statutory auditors are active subjects. The functions of the Watch Structure may be assigned to a statutory auditor if the Watch Structure is composed of a single member.	
	B. Risk Management						
	27. Risk Committee. Establish a Risk Committee that supports the Chief Executive Officer in the identification and management of corporate risks, as part of CEO's functions relating to internal control system and enforcement of the functions of Internal Control Committee on matters regarding risks (see proposal no. 22).	-	• Art. 1 (Role of the Board of Directors) Corp. Gov. Code. • Art. 5 (Internal Committees of the Board of Directors) Corp. Gov. Code. • Art. 8 (Internal Control System) Corp. Gov. Code.	-	X	-	
	28. Chief Risk Officer. Appoint a Chief Risk Officer (CRO).	-	-	X (2)	X (1)	The relation between the CRO and the Board of Directors has to be evaluated.	
C. Cooling-off period							
29. The Board members should not be elected as control body members before 2 years have elapsed from the expiry of the board member's office; this could be provided as an independence requirement.	-	-	X (2)	X (1)	In the case of a self-regulatory provision, problems of enforcement could rise given that the recipients of the provision are the shareholders.		
Relations with shareholders and other stakeholders	A. Electronic shareholders' forum						
	30. Create an electronic shareholders' forum to facilitate dialogue and the exercise of their rights.	• Leg. Decree no. 27/2010.	• Art. 11 (Relations with shareholders) Corp. Gov. Code.	-	X	It is necessary to avoid confusion with other existing instruments (e.g., in certain aspects, the solicitation of proxies).	
	B. Voting policies of Institutional Investors						
31. Propose that Institutional Investors disclose their voting policies.	-	-	-	X	Promote a Stewardship Code.		

	Proposal	Regulatory status		Changes to be made		Comments
		Legal provisions	Borsa Italiana Corporate Governance Code provisions	Legal provisions	Self-regulatory provisions	
Relations with shareholders and other stakeholders	C. Employees					
	32. Promote best practices for employees by encouraging the purchase of shares (within certain limits) to make the employee a privileged and active participant in the company.	<ul style="list-style-type: none"> • Art. 2349 C.C. • Art. 2351 C.C. • Art. 2358 C.C. • Art. 2441 C.C. • Other laws. 	-	-	X	-
Shareholders' Meeting	D. Website					
	33. Propose standards of communication on the website in order to provide the public with clear, complete, transparent and verifiable information.	<ul style="list-style-type: none"> • Leg. Decree no.195/2007 (Transparency). • CONSOB Issuers' Regulation. • Art. 125-quater Consolidated Law on Finance (Internet site). 	• Art. 11.C.1. (Relations with shareholders) Corp. Gov. Code.	-	X	-
Shareholders' Meeting	A. Shareholders' Meeting formalities and procedures					
	34. Streamline Shareholders' Meeting procedures for efficient and rapid progress of works. In addition, regulate the shareholders' speech at the Meeting to avoid initiatives of mere inconvenience, in light of the actual shareholding possession and considering the possibility for shareholders to ask questions and receive answers before the Meeting. Allow in any case vote declarations in a short time.	<ul style="list-style-type: none"> • Art. 2364, paragraph 1, no. 6) C.C. (Provision of Shareholders' Meeting Regulations). • Art. 2371 C.C. (Powers of the Chairman of the Meeting). • Art. 127-ter Consolidated Law on Finance (Right to ask questions before the Shareholders' Meeting). 	• Art. 11.C.5. (Relations with shareholders) Corp. Gov. Code.	X	X	Possible protests by small shareholders.
Shareholders' Meeting	B. Vote					
	35. Separate vote. Formulate the agenda so that shareholders can express their views on each proposal separately.	<ul style="list-style-type: none"> • Art. 2366, paragraph 1 C.C. (Formalities for the calling of the Shareholders' Meeting). • Art. 125-bis Consolidated Law on Finance (Notice of call to Shareholders' Meeting). 	-	-	X	The provision also seems useful for the appointment of directors (see above). Longest timeframe possible for conducting the works of the Shareholders' Meeting.

Legend

C.C. = Italian Civil Code

Consolidated Law on Finance = Legislative Decree of February 24th 1998, no. 58

Consolidated Law on Banking = Legislative Decree of September 1st 1993, no. 358

Corp. Gov. Code = Corporate Governance Code for listed companies issued and approved by the Corporate Governance

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