



ORGANISATION, MANAGEMENT, CONTROL, AND ANTI-CORRUPTION MODEL

*pursuant to Legislative Decree 231/2001 and Law 190/2012
(and subsequent amendments)*



GENERAL SECTION

Adopted by the Board of Directors meeting on 3 February 2021

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INTRODUCTION

TOTO S.p.A. Costruzioni Generali (TOTO) executes its management and control of the Company through a sound and transparent way in fulfilment of national and international legal provisions, particularly in compliance with:

- ❖ the requisites of **Legislative Decree 231/2001** containing the *"Discipline of the administrative liability of legal persons"*;
- ❖ the principles of **Law 190/2012** containing *"Provisions for the prevention and punishment of corruption and illegality in public administration"*.

Decree no. 231 provides for the "administrative" (criminally relevant) responsibility of legal persons, deriving from the commission or attempted commission of certain types of criminal offences in the interest or for the benefit of the companies themselves. Such a responsibility is in addition to the criminal liability of the individual who has committed the criminal offence.

Vice versa, Law 190 provides for the adoption of measures, instruments, and models so that the Company may abide by the ethical standards and act in full observance of the norms regarding the prevention of corruption in all its forms, both direct and indirect, and the integrity, transparency, and correctness of the Company's corporate actions.

The two laws converge on sensitive issues regarding the controls to enact on corruption offences, hence the corporate need to consolidate both the 231 decree matters and Anti-corruption profiles within a single Model: an unambiguous tool with which the Company ratifies its alignment with the aforementioned principles.

In addition to its Governance and Internal Control System, and for the purposes of its regulation, the Company adopts its own Code of Ethics, integrated with this Model. Together, they ensure efficient and transparent process management and the effectiveness of risk control and monitoring activities.

1. 231 REGULATORY PROFILES AND ANTI-CORRUPTION

1.1 The 231/01 Decree

The Decree enables the assets of entities that have nurtured their own interest or taken advantage of certain crimes committed by individuals - actual perpetrators of a criminally relevant offence - who "impersonate" the entity or operate, in any case, in the interest of the latter, to be directly hit.

Decree 231 of 2001 was developed based on the following provisions:

- ❖ law 300/2000, which incorporates the Convention on the protection of the financial interests of the European Communities (Brussels, 26 July 1995);

- ❖ the Convention on the fight against corruption in which officials of the European Communities or of the Member States of the European Union are involved (Brussels, 26 May 1997);

the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (Paris, 17 December 1997).

1.2 Anti-corruption

Regarding the types of crimes that include corruption, the following specific laws/international conventions are in force, in addition to Law 190/2012 (as amended or supplemented, including Law no. 3 dated 9 January 2019) prohibiting corruption of Public Officials and individuals:

- ❖ the Convention of the Organisation for Economic Cooperation and Development on Combating Bribery of Foreign Public Officials in International Business Transactions;
- ❖ The United Nations Convention against Corruption;
- ❖ The Foreign Corrupt Practices Act (USA);
- ❖ The Bribery Act (UK);

The anti-corruption laws, in a nutshell:

- ❖ prohibit payments made either directly or indirectly - including those payments made to a third party with the knowledge that the sum of money will then be shared with a Public Official or private individual - as well as offers or promises of a payment or other benefits with the purpose of corrupting Public Officials or private individuals;
- ❖ require companies to equip themselves and keep books, records, and accounting records that, with reasonable detail, accurately and correctly reflect transactions, expenses (even if not "significant" from an accounting perspective), acquisitions, and sales of goods.

Regarding this last point, TOTO, although it is not listed on the exchange market, intends however to be compliant with the 262/2005 Law. The Law insist on the needs of the Company in terms of traciability and assurance and transparency of the accountant and administrative procedures for the management of the general accountant and the financial statement.

2. MODEL POLICIES AND PRINCIPLES

2.1 The 231/01 Decree

The Model is supported by a complex, organic system of monitoring procedures and activities and is aimed at preventing, or at least reducing, the risk of crimes to an acceptable level. The identification of activities exposed to the risk of crime and their procedural implementation, as well as the development of an effective system of controls, must contribute to:

- ❖ making all those who work in the name and on behalf of TOTO fully aware of the penalties that TOTO would face in the event of a Crime being committed;

- ❖ allow TOTO to promptly adopt the most appropriate measures and precautions to prevent or impede the commission of Crimes.

The aims of the Model include, therefore, instilling all Employees, Corporate Bodies, Consultants, and Partners, who operate in the field of Sensitive Processes, with:

- ❖ respect for the roles, operating procedures, protocols and hence the Model;
- ❖ awareness of the value of the Model in order to prevent the risk of Crimes being committed.

The effective implementation of the Model is ensured by the S.B.'s ongoing monitoring activities and the application of disciplinary measures, which promptly and effectively punish any type of unlawful conduct. In preparing the Model, the existing monitoring procedures and systems were considered, where deemed suitable for the prevention of Crimes and for the monitoring of Sensitive Processes. In particular, TOTO has identified the following tools already available and suitable for addressing the formation and implementation phases of resolutions and company activities in a useful direction to prevent the commission of Crimes:

- ❖ the principles of corporate governance normally applied;
- ❖ the internal control system, and therefore the company procedures, the documentation and the provisions inherent to the corporate and organisational hierarchical-functional structure, as well as the management control;
- ❖ the rules concerning the administrative, accounting, financial, and internal reporting system;
- ❖ the internal communication system and staff training;
- ❖ the disciplinary system as per the collective category employment contract;
- ❖ in general, the relevant Italian and foreign legislation.

The principles, rules, and procedures listed above are not described in detail in the Model, as they are already part of the broader organisation and control system of TOTO, which should be considered as referenced and integrated in its entirety according to the guidelines indicated below.

Furthermore, the basic principles behind the Model are:

- ❖ the Sensitive Processes;
- ❖ the requirements indicated by the Decree, and especially:
 - the attribution of the task of promoting and ensuring the effective and correct implementation of the Model to an S.B., including by monitoring corporate behaviour and the right to a constant active and passive information flow on the activities relevant to the purposes of the Decree;
 - the provision of adequate human and economic resources to the S.B. to support it in its assigned tasks and to achieve the expected results;
 - the verification of the Model's functioning, with consequent periodic updates;
 - the raising of awareness and dissemination, at all company levels, of the behavioural rules that TOTO has included in the Code of Ethics;

- ❖ the general principles of an adequate internal control system, and especially:
 - the verifiability and traceability of every relevant transaction for the purposes of the Decree;
 - the compliance with the principle of separation of functions, based on which no one can independently manage an entire process;
 - the definition of authorisation powers consistent with the responsibilities assigned;
 - the mandatory communication to the S.B. of all information relevant to the execution of its tasks;
 - a planning of control activities that gives priority attention to the areas identified as sensitive.

2.2 Anti-corruption

With particular reference to Anti-Corruption issues, TOTO prohibits:

- ❖ inducing a public official, a person in charge of a public service, or a private individual, to improperly perform any function of a public nature, or any activity associated with a business, or rewarding him/her for having carried it out;
- ❖ influencing an act (or an omission) or any decision by a public official or a person in charge of a public service, or a private individual in violation of an official duty or obligation of loyalty;
- ❖ obtaining, securing, or unfairly maintaining a business or an advantage related to the business activities;
- ❖ obtaining, securing, or maintaining an unfair benefit of any kind, not only in the interest and/or advantage of the Company, but also for personal or family or acquaintance interests - in violation of loyalty obligations;
- ❖ more generally, violating applicable laws.

Compliance with the Model is mandatory for all Personnel and, insofar as it applies, for Partners, Relevant Third-Parties, and third parties in general operating for TOTO, specifically:

- ❖ the Personnel is responsible, each insofar as it concerns them, for compliance with the Model. In addition, directors and managers are responsible for monitoring compliance by their employees and for taking measures to prevent, identify, and report potential violations;
- ❖ no activity that violates this Model and/or the Anti-Corruption Laws may in any case be justified or tolerated because it is "customary" in the sector to which it belongs and/or in the Countries in which the Company operates. No services can be imposed or accepted in violation of this Model;
- ❖ the Third Parties that violate this Model and/or the Anti-Corruption Laws will be subject to contractual provisions (such as suspension of the execution of the contract, claims

for damages, termination of the contract, prohibition of future commercial relations with TOTO);

- ❖ the labour relationship with the Personnel can in no way be affected, should they refuse to behave in a way that is contrary to the provisions of this Model and/or the Anti-Corruption Laws, even if such refusal gave rise to the loss of a business or other consequences detrimental to business.

TOTO prohibits any undue payment, utility, or other benefit to Public Officials in violation of this Model and the applicable Anti-Corruption Laws, even if these should be explicitly requested, or even if it is customary in a given context, and even if this should lead to any kind of disadvantage for TOTO or its Personnel. TOTO also requires its Personnel to immediately notify the S.B. of any request received from Public Officials deemed as illegitimate, in other words should any doubt regarding their behaviour arise in the management of relations with the latter.

In addition, the main Anti-Corruption Laws impose specific obligations concerning account maintenance, designed, among other things, to discourage and disclose payments and collections made for corrupt purposes. TOTO has ensured that account keeping be in compliance with the applicable accounting principles thus reflecting, in a complete and transparent manner, all the facts underlying each transaction. All costs and charges, revenues and receipts, incomes, payments, and expense commitments must therefore be entered promptly within the financial information, in a complete and accurate manner and must have adequate supporting documents, issued in accordance with all the applicable laws and the related provisions of the internal control system.

TOTO has provided for the storage and availability of the accounting books and documentation for the external auditor, so as to be able to accurately justify all revenues, payments, and, in general, all transactions, and clearly identify the purpose of such events.

To meet these requirements, all TOTO employees must, without exception, comply with the provisions of the laws, regulations, and procedures concerning corporate accounting. TOTO Personnel must never consent to invoice requests for services that were not provided or were misleading, or for payment of unusual, excessive expenses, not adequately described and insufficiently documented, and, in any case, must request support pursuant to these policies and procedures or company guidelines relating to balance sheets and book keeping. No accounting documentation or other document related to a transaction must be falsified in any way that might make the true nature of the transaction unclear or counterfeit. No employee should make provisions that appear to be inaccurate entries in TOTO's books and documentation. No payment in the name of TOTO must be approved or executed if there is an explicit or implicit agreement that a part of the payment must be used for a purpose other than that described in the documentation supporting the payment. Hidden or unregistered funds and accounts are prohibited. These requirements apply to all transactions, regardless of their financial relevance. In addition, all employees must fully comply with any requirements

applicable to the preparation and to the forwarding of expense reports (for example, they must describe a financial objective related to the expenses for meals and entertainment with administrative officials, list all participants, and attach all necessary receipts). In case of doubts or questions, it is possible to ask the Internal Audit.

3. PREDICATE OFFENCES

3.1 The 231/01 Decree

The types of offence likely to entail the Company's administrative responsibility are only those expressly listed by the legislator, and more specifically listed in Addendum 1 to this Model and for which a "special section" is dedicated.

3.2 Anti-corruption

Regarding crimes or offences contemplated in the area of "Relations with the PA" and "Corporate" crimes, the issue of corruption, both towards public officials and private individuals, is particularly important. The Model, on this matter, focuses on these groups of predicate offences, listing the main cases that might occur as described below:

Public Administration - Corruption of Public Officials

The interactions that occur with Public Administrations can create potential risk situations, since TOTO can be held responsible for acts of corruption undertaken or attempted towards Public Officials, who may request improper benefits in order to act in ways that do not conform to their duties or in violation of the obligations inherent to their office. The possible interactions with representatives of the Public Administration mainly concern the following categories of relations:

- ❖ Obtaining administrative measures that are domain of the P.A.: activities that can determine risks of corruption in the processes of obtaining acts/obligations in the P.A.'s domain (including licenses, permits, authorisations, concessions, etc.), import/export of goods, health inspections, security, etc.;
- ❖ fulfilment of obligations towards the P.A.: the implementation of regulatory provisions, the execution of specific verifications, presentation of declarations, etc., could generate risks of corruption;
- ❖ verifications and/or controls by the P.A.: including inspections, verifications, controls, investigations, etc. in which TOTO representatives are in charge of managing the related requests, thus potentially generating risks for the Company;
- ❖ disputes with the P.A.: the disputes with the Public Administration Entities and the disputes with private subjects generate potential situations at risk of corruption in relations with the Judicial Authorities

Third Parties - Corruption among private parties

TOTO requires that relations with third parties (consultants, suppliers, and other individuals, legal persons) maintained during the course of Business activities, be based on the criteria of maximum correctness, transparency, and traceability of information sources, as well as on compliance with the Anti-Corruption Laws and all other applicable laws. Particular reference is made to the following main areas:

A. Suppliers and Customers

Corruption activities carried out by or in favour of TOTO suppliers or customers, are sensitive with respect to the Anti-Corruption Laws and can involve responsibilities for TOTO itself. The risk can also be represented by the fact that a customer may try to force the Company to work with a certain supplier with which the customer has some relationship, in order to obtain personal benefits. Third Parties are required to comply with the principles contained in this Model. TOTO prohibits any Third Party's behaving contrary to the Model, for which TOTO takes no responsibility whatsoever. In order to minimise the possible occurrence of such behaviour, as potentially detrimental to the interests and rights of TOTO, the latter requires that all suppliers and customers comply with the Company's ethical standards and applicable laws, therein including the Anti-Corruption Laws, when carrying out business activities with TOTO. This obligation must be explicitly accepted upon the stipulation of contracts, following the examination of the documents laying out the ethical principles (Code of Ethics and Model). In the event that the counterpart is in turn equipped with an Organisational Model pursuant to Legislative Decree 231/2001, an Anti-Corruption Model, or a Code of Ethics, TOTO must provide for a consistency check of the principles expressed in them with respect to the principles adopted by TOTO. Moreover, all the contracts must include an "Administrative Liability" clause that binds the counterpart in which it undertakes to act:

- in compliance with the Code of Ethics, the principles set forth in TOTO's Model;
- or in compliance with the principles set forth in its own Code of Ethics and Model, if they are consistent with those of TOTO;

This clause must grant TOTO the right to terminate the contract, interrupt payments, and receive compensation for damages in the event of violation by the counterpart of the obligations and declarations set forth above, or in case of violation of the Anti-Corruption Laws or of the Anti-corruption commitments required by the contract.

B. Consultants

With reference to consulting and professional service contracts, TOTO has defined the specific control principles to be adopted in the selection, stipulation, and management of these types of contracts, for which reference is made to the company procedures that govern the process, in order to guarantee that relations with third parties

(consultants, suppliers, individuals, legal persons, and de facto entities) maintained during the course of Business activities, be based on the criteria of maximum correctness, transparency, and traceability of information sources, as well as in compliance with the Anti-corruption laws and all other applicable laws. TOTO requires that the following principles be observed, in fulfilment of the provisions of the internal company provisions relating to the management of consulting and professional services:

- the suppliers of such services must be only individuals or legal persons or de facto bodies, that are reliable and of excellent reputation;
- the aforementioned contracts must be written and include:
 - ✓ the description of the services owed by the counterpart, the payments due, and their terms and conditions;
 - ✓ TOTO's right to carry out checks on the counterpart's activity, in the event that the same may have violated the provisions set out in the contract and/or in the documents regulating the ethical and control principles signed by the counterpart;
- the contracts contain the "Administrative Liability" clauses and require the acceptance on behalf of the consultant/professional of the principles of the TOTO Code of Ethics and Model;
- no remunerations, fees, or commissions must be paid to consultants or collaborators for amounts that are inconsistent with the services rendered to the company or services that do not comply with the assignment and the conditions/practices existing on the market or determined by professional rates;
- a declaration must be provided in which the counterpart guarantees (i) that the fee due is exclusively received as consideration for the services defined in the contract; (ii) to be the final recipient of the payment of the fee or is obliged to indicate said final recipient, with TOTO's having the right to terminate the contract in the event that the aforementioned subject is not positively verified.

The procurement process and related activities are regulated in detail by the corporate procedures of TOTO, which identify the roles and responsibilities of the main players involved in the procurement process and define the procedures for a correct and transparent selection and management of suppliers, the procedures for the reporting and control of the same, and the management of the relevant process documentation. TOTO may avail itself of the support of Consultants, providers of professional services, and collaborators in carrying out its business activities. In some cases, these act on behalf of TOTO and have significant contact with a Public Official or private subject in the execution of their duties on behalf of TOTO, thus ensuring that the contractual relationship with TOTO falls within the conditions stipulated for Relevant third parties, therefore making additional controls and verifications necessary with respect to the

provisions of the procedures governing relations with third parties. It is important to evaluate consultants, providers of professional services and collaborators and be able to determine if each of them has undertaken, or if there is a reasonable possibility that they may undertake, activities prohibited by the Code of Ethics and the policies defined by this Model. The due diligence checks, described in detail in the Confindustria Anti-Corruption Guidelines, define the control criteria and methods aimed at effectively assessing the risks associated with establishing relationships with Consultants, providers of professional service, and collaborators;

C. *Relevant Third Parties*

A relevant third party is understood to be any third party, who is not an employee, who acts on behalf of TOTO or who may have significant contact with a Public Official or a private subject in the performance of his/her duties on behalf of TOTO. The third parties considered as relevant for TOTO are:

- Partners (in joint ventures, consortia, special-purpose entities, etc.).
- Consultants, providers of professional services, collaborators, if they have significant contact with a subject of the P.A. or a private subject on behalf of TOTO;
- Third parties involved in extraordinary transactions.

Relevant Third Parties must respect the principles contained in this Model. TOTO prohibits any Relevant Third Parties' behaving contrary to the Model, for which TOTO takes no responsibility whatsoever. In order to minimise the possibility of such behaviours' occurring, which may be detrimental to the interests, rights, and image of TOTO, the latter requires Relevant Third Parties' compliance with the applicable laws, including the Anti-Corruption Laws, in business activities carried out with TOTO. TOTO performs the appropriate verification and approval procedures so as to be able to determine if a Relevant Third Party is acting, or if there is a concrete risk that it may act, in violation of this Model, the Code of Ethics or the applicable laws. TOTO requires that before establishing a relationship and during the whole duration of the contract with a Relevant Third Party, the following assessment procedures be carried out:

- conduct an appropriate level check (due diligence), to be carried out according to the procedural rules and prior to establishing a relationship or carrying out a transaction with a Relevant Third Party;
- should reasons for caution be identified during the due diligence phase, an assessment that these have been adequately resolved or that the appropriate protections have been established in order to guarantee TOTO;
- monitoring during the relationship or the execution of an operation with the Relevant Third Party, providing for the verification of the continuity of the counterpart's required compliance with the principles contained in the Model.

TOTO employees must be able to document that:

- the Relevant Third Party has a verified ethical reputation;
- there is a valid commercial reason that justifies a relationship with this Relevant Third Party;
- the payment methods are commercially reasonable and proportionate to the level and type of services provided;
- following due diligence, and with reference to any aspects of incompatibility or conflicts of interest (e.g. **Related Parties**), it has been established that there is no relationship that does not comply with the provisions of the procedures, the Code of Ethics, and the current legislation (independent counterparts) between the Relevant Third Party and Government Officials or parties in conflict of interest with the Company, nor have any other warning signs emerged to indicate possible irregularities;
- the relationship is structured and regulated by specific written documents, containing suitable contractual protections against the improper behaviour of Relevant Third Parties;
- the relationship is effectively and promptly monitored, from the time the agreement is finalised to its conclusion, taking care to verify that all the elements assessed during the due diligence remain valid for the entire duration of the contract.

Before establishing relationships with a new Relevant Third Party, TOTO employees must adopt all the measures set forth in this Model and in the procedures.

D. Partners

If necessary, TOTO collaborates with legal entities in order to develop or manage initiatives, including on the basis of local laws' being imposed in countries in which it decides to operate. A partner is a legal person that shares the risks associated with the investment, i.e. the profits or ownership of an operation. These forms of collaboration can be implemented either through the establishment of specific corporate structures, provided for by local legislation, or by means of "joint venture" agreements, or other associations. It is important for TOTO to know its potential partners and to be able to assess existing or potential risks deriving from activities that are not in line with internal regulations and/or ethical principles defined by TOTO. In this sense, the Company requires all its employees, managers, and directors to take particular care and attention in selecting and evaluating partners. This Model and the procedures, to be considered as integral parts of it, establish the requirements for the selection, negotiation, and verification of these partners' activities. These principles of behaviour apply to all partnerships between the Company and the partners;

E. Sponsorships

Sponsorship activities are sensitive to Anti-Corruption regulations. TOTO pays attention to any possible conflict of personal and/or business interests for any sponsorship activity, which could represent a risk for the Company, if it were to be considered a corrupt act. TOTO has provided that in order for sponsorships to be carried out they must fall within the sphere of the initiatives that have the exclusive purpose of an institutional promotion of the brand, increasing visibility and improving the reputation of TOTO. To avoid their being considered a disguised form of conferring a benefit to a third party to obtain an advantage for the Company, all sponsorship activities, must be documented with a written contract. TOTO prescribes the methods of authorisation, stipulation, and management of sponsorship contracts, which must comply with the following principles:

- sponsorships must be carried out in accordance with the approved budget;
- a check must be carried out on the potential conflicts of interest in the initiative to be sponsored;
- the partners in sponsorship contracts must only be entities (or individual founders of new companies, for example in the case of start-ups) that are well known, reliable, and of excellent reputation;
- due diligence must be performed on the potential partners to the sponsorship contract, as well as verification of the legitimacy of the contract based on applicable laws;
- sponsorship contracts must be written and provide for:
 - ✓ an adequate description of the nature and purpose of the individual initiative, the payment due, and its terms and conditions;
 - ✓ a declaration by the counterpart that the fee paid is exclusively used for the purposes of the initiative;
 - ✓ a clause that binds the counterpart to comply with the Anti-Corruption Laws and applicable laws;
 - ✓ an "Administrative Liability" clause that requires that the counterpart undertake to act in compliance with TOTO's Code of Ethics and the principles set forth in the Model;
 - ✓ the right of TOTO to terminate the contract, interrupt payments, and receive compensation for damages in the event of a violation by the counterpart of the obligations and declarations set forth above, or in case of violation of the Anti-Corruption Laws or the Anti-Corruption commitments provided for by the contract;
 - ✓ TOTO's right to carry out checks on the counterpart, in the event that it has a reasonable suspicion that the counterpart may have violated the provisions contained in the applicable regulations and/or in the contract;

Contributions and Donations: TOTO has established the possibility of delivering contributions directly or indirectly to political and union parties, movements, foundations, committees and organizations, exclusively according with the Law. Donations have to be included in the field of the social initiatives with the scope of social solidarity, human issues, social and economic promotions, science research, education, protection and development of the natural and artistic heritage, support of events / organizations with a social and cultural utility value particularly relevant. In particular these donations, haven't any return in terms of counter service. TOTO prescribes the methods relating to the authorisation and the provision of donations, which respect the following principles:

- they must be carried out in accordance with the approved budget;
 - potential conflicts of interest must be checked in the joint initiative that is intended to be carried out;
 - beneficiary institutions must be well known, reliable, and of excellent reputation;
 - where possible (in the case of identified or identifiable beneficiaries), due diligence must be performed on the potential beneficiary entity as well as verification that it has satisfied all the requirements for operating on the basis of applicable laws;
 - the legitimacy of the contribution must be verified with respect to Anti-Corruption Laws and other applicable laws;
 - all the proposals must be examined, and authorised by the subjects with appropriate powers in compliance with the procedures that govern the activity.
- ❖ All cash contributions must be made via traceable and non-transferable payment methods and accompanied by an official letter from the Company confirming that it is aware that the purpose of the contribution is legitimate. Disbursements in kind (supply of products and/or services), in addition to complying with the principles and requirements described above, must be adequately accounted for by producing the necessary supporting administrative and accounting documentation. Where appropriate, statements and guarantees may be requested from the recipient regarding the use of donated funds/assets or the provision of other reporting tools, if necessary, in order to monitor the donated funds;

Representation: Even site visits, off-site meetings, and other business-related transactions that may involve payment or reimbursement by the Company of travel costs and related expenses (for example, transportation, accommodation, meals, and additional expenses) incurred for administrative officers or employees of a business partner, can generate corruption risks. Representation and hospitality expenses are the costs incurred for the purchase of a good or service in favour of third parties, entities, or companies with respect to TOTO, justified by commercial activities or aimed at

promoting the corporate brand. Their characteristic is the absence of a fee. All representation expenses must be recorded accurately and transparently in the Company's accounting books with sufficient detail and must be supported by adequate supporting documentation in order to identify the name of the beneficiaries, as well as the purpose of the payment. Any representation expenses, in addition to being reasonable and carried out in good faith, must have the following characteristics:

- does not entail a cash payment;
- is carried out for business purposes that are in good faith and legitimate;
- not be motivated by the desire to exert an improper influence or expectation of reciprocity;
- comply with generally accepted standards of professional courtesy;
- be in line with anti-corruption laws, local laws, and applicable regulations;
- be justified by commercial activities and not have as a main purpose visits by foreign officials to tourist attractions for personal reasons.

In addition to the above, TOTO requires that employees comply with the procedures, with particular care towards the authorisation process and the traceability of all information sources.

Gifts, economic advantages, or other benefits, can be made or received if they constitute acts of commercial courtesy and are such as not to compromise the integrity and/or reputation of one of the parties and such that they cannot be interpreted by an impartial observer as intended to create an obligation of gratitude or to improperly gain advantages. TOTO prohibits giving and accepting, directly or indirectly, any form of gift aimed at obtaining an improper, personal, or business advantage, or one that can also be interpreted as such.

Acts of commercial courtesy, such as gifts or forms of hospitality, are permitted only if they comply with the defined company procedures. Presents and/or gifts must not be given if this could lead to the violation of the prohibition of corruption required by TOTO or the relevant regulations.

The only forms of gifts granted, as a form of commercial courtesy, must be: of modest value, or commensurate with the circumstances of the recipient;

- granted in good faith and according to good morals;
- compliant with generally accepted standards of professional courtesy (e.g. Christmas package) or for promotional/demonstration purposes;
- not made in cash payment;
- in line with the Anti-Corruption Laws, local laws, and applicable regulations.

These principles do not allow any form of exception and are applicable with reference to TOTO employees and third parties, even in Countries where it is customary to offer presents and gifts or benefits that do not respect the above principles. Furthermore, in the case of gifts or presents offered or received, TOTO expects that the complete

traceability of the act, the estimate of the relative value, and the identification of the subjects/companies involved (i.e. beneficiaries and granters) be maintained.

3.3 Focus on Intragroup Relations

The services provided by the Company to Group companies (and vice versa) are governed by specific intercompany service contracts that require:

- ❖ the obligation on the part of the company benefiting from the service to certify the truthfulness and completeness of the documentation or information communicated to the Company, to perform the services requested;
- ❖ the identification of the services to be provided at market value;
- ❖ the insertion of specific clauses within which each of the parties undertakes not to act contrary to the laws and in particular the Decree, the provisions of the Code of Ethics, and the Model;
- ❖ compliance with the procedure on transactions with related parties (if applicable).

In the provision of services referred to in this paragraph, the Company complies, in addition to the Code of Ethics, with the provisions of its Model and with the procedures established for its implementation.

3.4 Focus on Offences committed abroad

Entities also respond in Italy for crimes committed abroad, as long as the State of the place where the offence was committed is not proceeding against the Entity. In the event that a request from the Minister of Justice is required for the punishment of the offender, the procedure against the Entity takes place only if the request is also formulated against the latter.

Based on art. 4 of the Decree, the Entity established in Italy may be called upon to respond, in relation to offences that took place abroad, if the following conditions are met:

- ❖ the crime must be committed abroad by a subject functionally linked to the Entity (article 5 paragraph 1 of the Decree);
- ❖ the Entity must have its main office in the territory of the Italian State;
- ❖ the Entity can only answer in the cases and on the conditions set forth in articles 7 (Offences committed abroad), 8, 9, and 10 of the Italian penal code.

Furthermore, according to the provisions of art. 10 of law 146 of 2006, the Entity is liable for several crimes of a transnational nature (such as, for example, organised - including Mafia-related - crime,). In such cases it is necessary that the unlawful conduct, committed by an organised criminal group, be committed:

- ❖ in more than one State/ in one State with substantial effects in another State;
- ❖ in a single State, although a substantial part of its preparation or planning or management and control must take place in another State;

- ❖ in one State, but the organised criminal group involved is a perpetrator of criminal activities in more than one State.

4. SYSTEM OF SANCTIONS - REGULATIONS

4.1 The 231/01 Decree

The penalties set forth in the law against the entities as a result of the commission or attempted commission of the specific crimes mentioned above consist of:

- ❖ pecuniary sanction up to a maximum of Euro 1,549,370.69 (and seizure as a precautionary measure);
- ❖ bans (also applicable as a precautionary measure) of a duration not less than three months and no more than two years, which may consist in:
 - ban on conducting one's activity;
 - suspension or revocation of authorisations, licenses, or concessions functional to the commission of the offence;
 - ban on any contracting with Public Administration;
 - exclusion from benefits, financing, contributions or subsidies, and possible revocation of those granted;
 - ban on advertising goods or services;
 - confiscation of the profit that the entity has gained from the offence (seizure, as a precautionary measure);
 - publication of the conviction (which can be ordered in the case of application of a ban).

The pecuniary sanction is determined through an innovative system based on "quotas" of a number not less than one hundred and not more than one thousand and of a variable amount between a minimum of Euro 516,44 and a maximum of Euro 3.098,74. The judge determines the number of quotas taking into account the seriousness of the fact, the degree of responsibility of the entity and the activity carried out to eliminate or mitigate the consequences of the fact and to prevent the commission of further offences. The amount of the quota is set based on the economic and financial conditions of the entity, in order to ensure the effectiveness of the sanction (article 11 of the Decree).

The bans are applied only in relation to the offences for which they are expressly provided for when at least one of the following conditions applies:

- ❖ the entity has made a significant profit from the offence and the offence was committed by individuals in senior positions or by persons subject to the direction of others when, in the latter case, the commission of the offence was determined or facilitated by serious organisational deficiencies;
- ❖ in the event of repeated offences.

The bans on conducting activity, the prohibition to contract with the public administration, and the prohibition to advertise goods or services can be applied - in the most serious cases - permanently.

According to the provisions of the Decree, the entity is responsible for the crimes committed in its interest or to its benefit:

- ❖ by "persons who hold positions of representation, administration or management of the organisation or one of its organisational units with financial and functional independence, as well as by persons who exercise, even de facto, the management and control of the same" (so called "persons in senior positions"; art. 5, paragraph 1, let. a) of the Decree);
- ❖ by persons subject to the management or supervision of individuals in senior positions (so-called "individuals subject to the management of others", article 5, paragraph 1, letter b) of the Decree).

By express legislative provision (article 5, paragraph 2 of the Decree) the entity is not liable if the indicated persons have acted in their own exclusive interest or in the interest of third parties.

In the case of an offence committed by a person in a senior position, the entity does not respond if it proves that (Article 6, paragraph 1 of the Decree):

- ❖ the governing body has adopted and effectively implemented, prior to the commission of the fact, organisational and management models suitable for preventing offences of this type;
- ❖ the task of supervising the functioning, effectiveness, and observance of the models, as well as ensuring that they are updated, has been entrusted to an internal body with independent powers of initiative and control;
- ❖ individuals have committed the offence by fraudulently eluding the organisation and management models;
- ❖ there was no omitted or insufficient supervision by the body;

The Decree outlines the content of the organisation and management models, providing that they must respond - in relation to the extension of the delegated powers and the risk of the offences being committed - to the following needs:

- ❖ identify the activities in which the Offences may be committed;
- ❖ prepare specific protocols aimed at establishing and implementing the entity's decisions in relation to the offences to be prevented;
- ❖ identify methods for managing financial resources that are suitable for preventing the commission of these offences;
- ❖ establish obligations to inform the body in charge of supervising the functioning and observance of the organisational model;
- ❖ introduce a disciplinary system suitable for sanctioning the failure to comply with the measures indicated in the organisational model.

In the case of an offence committed by persons subject to the management of others, the entity is not liable if it proves that the non-compliance with the management or supervisory obligations did not contribute to the offence. In any case it is excluded if the entity, before the commission of the Offence, has adopted and effectively implemented an organisational, management, and control model suitable for preventing the offences of the kind that have occurred. TOTO complies with the regulations established by the Decree with the aim of preventing the commission of Offences and is equipped with a Model suitable for this purpose.

4.2 Anti-corruption

The subjects (individuals, legal persons and de facto entities) who violate the Anti-Corruption Laws may incur fines, bans, and imprisonment depending on the subjects involved, seriously damaging the reputation of the company. In order to maximise the effectiveness of the sanctions, there is usually a concurrent liability of the Company in addition to that of its Personnel for violations of the Anti-Corruption Laws. Any employee or collaborator who does not act in accordance with the provisions of this Model or does not report other known or suspected unlawful actions will be subject to disciplinary action commensurate with the seriousness of the violation committed (including the penalties provided for in the relevant employment contracts, the dismissal or removal from office, in addition to the possible start of legal of actions in the competent judicial offices). The managers of each Company Department and Function must actively encourage their collaborators to observe the policies and procedures contained in this Model, without ignoring the evidence of possible violations. They will be subject to disciplinary action in case they are aware of or have reason to suspect, based on evidence, that the conduct prohibited by these policies and procedures is perpetrated by employees under their supervision, without implementing any dissuasive action and without having undertaken the necessary and appropriate corrective measures.

4.3 Disciplinary System

Article 6, paragraph 2, lett. e) and article 7, paragraph 4, lett. b) of the Decree expressly establish (with reference to both individuals in senior positions and subjects under the direction of others) that the entity's exemption from liability is subject, among other things, to proof of the introduction of "a disciplinary system capable of sanctioning failure to comply with the measures indicated in the model". The definition of a system of penalties commensurate with the gravity of the violation and with deterrent purposes, contributes to making the supervisory action of the S.B. effective and to ensuring effective compliance with the Model. The application of the disciplinary system and the relative sanctions is independent of the conduct and the outcome of the criminal proceedings that may be initiated by the judicial authority against the actual perpetrator of the criminal conduct.

A. Middle management, Employees, Workers

Without prejudice to the obligations arising from the law no. 300 of 30 May 1970 (so called "Statute of workers" and successive amendments and supplements) and other applicable laws, punishable behaviours that constitute a violation of the Model are listed below, by way of example:

- ❖ violation of internal rules or procedures adopted in the implementation of the Model or contained therein (for example, omission of communications or false communications to the S.B., obstructing the activities of the S.B., omission of controls, etc.);
- ❖ violation of the provisions of the Code of Ethics;
- ❖ conduct that is unequivocally directed towards the commission of one or more Offences, or in any case apt to expose TOTO to the consequences of the commission of Offences.

The sanctions will be commensurate with the level of responsibility and operational independence of the Employee, the possible existence of previous disciplinary measures against him/her, the intentionality and gravity of his/her behaviour (measurable in relation to the level of risk to which TOTO is exposed). Without prejudice to the supervisory task of the S.B. only with reference to the offences provided for by the Decree, the disciplinary system is subject to constant verification by the S.B. and by the person in charge of the Human Resources and Organisation Department, who is also responsible for the concrete application of the disciplinary measures outlined here, after having heard the hierarchical superior of the censored conduct's perpetrator. The violation of procedures, of control systems, of the Code of Ethics, and of the Model by Employees always constitutes a disciplinary offence. Therefore: (i) any notice of violation will result in the commencement of a disciplinary procedure; (ii) a disciplinary sanction will be imposed on the duly verified perpetrator of the violation; (iii) this sanction will be proportionate to the gravity of the infringement. In compliance with the procedures set forth in article 7 of the Workers' Statute, of the collective category contract and other applicable regulations, the disciplinary measures that can be applied to Employees are defined as follows:

- ❖ verbal warning: the sanction of verbal warning will be applied in cases of culpable violation of the principles of the Code of Ethics and/or of procedural rules provided by the Model or procedural errors, that do not have external relevance, due to negligence of the worker.
- ❖ written warning: will be applied in the cases of:
 - relapse in the violations referred to in the previous point;
 - culpable violation of procedural rules provided for by the Model or procedural errors, of external relevance, due to the negligence of the worker.
- ❖ fine of up to three hours' pay: in addition to cases of recidivism in the commission of infringements which may result in the application of a written warning, the fine may be applied in cases where, due to the level of hierarchical or technical responsibility, or in the presence of aggravating circumstances, the culpable and/or negligent behaviour,

may, even only potentially, undermine the effectiveness of the Model, including, merely by way of example and without being limited to:

- non-compliance with the procedures provided for by the Model regarding a procedure in which one of the necessary parties is the Public Administration;
 - repeated violations referred to in the previous point.
- ❖ suspension from work and pay, for up to three days: will be applied not only in cases of recidivism in the commission of infringements that may result in the application of the fine, but also in cases of serious procedural violations exposing the Company to liability towards third parties. This applies in instances, by way of example, but without being limited to, including:
- failure to comply with the requirement of periodic declarations (or false declarations) relating to compliance with the Code of Ethics and the Model, the absence of conflicts of interest regarding relations with the Public Administration;
 - failure to comply with the provisions relating to the powers of signature and the delegation system regarding the risks connected with acts and documents in relation to the Public Administration;
 - failure to supervise the behaviour of personnel operating within their domain of responsibility to verify their actions within the crime risk areas and, in any case, in the performance of activities instrumental to operational processes subject to criminal risk;
 - failure to comply with the provisions contained in the Code of Ethics and repeated violations referred to in the previous point;
 - abuse in reporting, for example, in the case of the reporting person's using unnecessarily unseemly language; this does not include one's mere reporting of the expressions of third parties;
 - reporting made for the sole purpose of retaliation or intimidation.
- ❖ dismissal with notice: will be applied in cases of repeated serious violation of procedures having external relevance while carrying out activities with necessary contact with the Public Administration, as well as repeated failure to comply with the provisions contained in the Code of Ethics;
- ❖ instant dismissal: will be applied for misconduct committed with intent and so serious as not to allow the even temporary continuation of the employment relationship, including, merely by way of example and without being limited to:
- deliberate violation of procedures having external relevance and/or fraudulent avoidance carried out through behaviour unambiguously aimed at committing an offence included among those set forth in the Decree such as to destroy the relationship of trust with the Employer;

- violation and/or avoidance of the control system, implemented with intent through removal, destruction, or alteration of the documentation of the procedure or by preventing control or access to the information and documentation by the persons in charge, including the Supervisory Body;
- missing, incomplete, or untruthful documentation of the activity carried out regarding the documentation and conservation of the procedural deeds, deliberately aimed at preventing their transparency and verifiability.

If the worker has committed one of the breaches listed above, the Company may order his/her provisional, non-disciplinary suspension with immediate effect for a period not exceeding 10 days. In the event that the Company decides to proceed with the dismissal, this will take effect from the day on which the precautionary suspension has begun. If the employees indicated above are in possession of a power of attorney with the power to represent the Company externally, the application of the most severe sanction with the fine will also entail the automatic revocation of the power of attorney itself. Regarding the assessment of infringements, disciplinary proceedings and the imposition of sanctions, the methods and powers already conferred remain with the head of the Human Resources and Organisation Department, within the limits of the related competencies.

B. Senior executives

The following are always disciplinary offences:

- ❖ the failure to supervise the correct application, by the hierarchically subordinate Employees, of the Code of Ethics and the Model,
- ❖ the direct violation of the Code of Ethics and the Model by managers,
- ❖ the adoption of behaviours, in the execution of activities connected with Sensitive Processes, which do not conform to the reasonably expected conduct of a manager, given the role held and the acknowledged degree of autonomy.

TOTO will therefore ascertain the infringements and apply the most appropriate sanctions in accordance with the provisions of the relevant National Collective Labour Agreement. If the breach destroys the relationship of trust, the sanction is the dismissal for justified objective reason or for just cause.

C. Directors

In the event of failure to comply with the Model or the Code of Ethics by one or more Directors, the S.B. will immediately notify the Board of Statutory Auditors and the entire Board of Directors for the adoption of appropriate measures. In order to avoid reprehensible behaviour by the Directors, the Model provides for the completion of a declaration of liability and of absence of conflict of interest.

D. Statutory Auditors

In the event of failure to comply with the Model or the Code of Ethics by one or more Auditors, the S.B. will inform the entire Board of Statutory Auditors and the Board of Directors, who will take the appropriate measures including, for example, the calling of a board meeting.

E. Consultants and Partners

Failure to comply with the Model or the Code of Ethics by Consultants or Partners, inserted or referred to by specific contractual clauses, is sanctioned according to the provisions of said clauses, and in any case with the application of penalties and/or automatic termination of the contract, subject to compensation for damages. Consultants or Partners must not induce Employees to violate the Code of Ethics or the Model.

5. EXEMPTING CONDITION

Article 6 of the Decree provides for a specific cause of exclusion from liability if the Entity demonstrates:

- ❖ having adopted and effectively implemented, prior to the occurrence of the fact, "models of organisational, management, and control suitable for preventing offences of the sort that has occurred";
- ❖ having set up an internal body, entrusted with autonomous powers of initiative and control, with the task of supervising the functioning, effectiveness, and observance of the aforementioned models, as well as updating them;
- ❖ that the persons who committed the crime acted by fraudulently eluding the aforementioned models;
- ❖ that there was no omission or insufficient supervision by the body referred to in the previous point.

These organisational, management, and control models must meet the following requirements:

- ❖ identify the activities in which the crimes envisaged by the Decree may be committed;
- ❖ provide specific protocols to establish and implement the decisions of the entity in relation to the crimes to be prevented;
- ❖ identify methods to manage financial resources that are suitable for preventing the commission of the aforementioned crimes;
- ❖ establish obligations to inform the body in charge of supervising the functioning and observance of the models;
- ❖ introduce an internal disciplinary system suitable for sanctioning the failure to comply with the measures indicated in the Model.

Article 6 of the Decree finally provides that the organisational and management models may be adopted, guaranteeing the aforementioned requirements, based on codes of conduct drawn up by representative trade associations, communicated to the Ministry of Justice, which,

together with the competent Ministries, will be able to formulate, within 30 days, observations on the suitability of the models to prevent the offences.

6. RISK MANAGEMENT

Internal Audit conducts, on annualy base, the Risk Assessment in order to identify the processes most exposed to significant risks and focalized, on them, the control activities and in order to give suggest corrective actions. The Corporate Management is involved in the Risk Assessment through interviews based on risk matrix that include specific risk and processes. To each process owner, is required the evaluation of the risk (based on the probability and the impact), the controls applied and, finally, the residual risks. Therefore the «Self Assessment» consist in a self evaluation by the Managers in terms of risks and controls existing in the Company and represent the homogeneous base for the Assurance Departments and supports, through a structured process:

- ❖ The improvement of the governance and the internal control system;
- ❖ The company procedures system;
- ❖ The Risk Disclosure attached to the Financial Statement.

The scores given by the Managers are sifted through an independent opinion by the internal audit department as an assurance department that has to give a qualitative and objective interpretation during the results collection activity. The Manager's evaluations, shared with the CEO, represent one of the main elements that support the evaluation of the eligibility of the internal and risk control system by the Supervisory Board on behalf of the Board of Directors of the Company.

The activities of the Risk Assessment are.

- ❖ Process Mapping;
- ❖ Process Owners identification and interviews;
- ❖ Self Assessment of risk and controls;
- ❖ Independent opinion by Internal Audit / QAS;
- ❖ Relevant process identification;
- ❖ TOP RISK identification.

Below a synthesis of the classification utilized for the risk category representation identified by nature.



The risks are identified and evaluated considering also the aspects related to the "231" and "anti corruption" relevant activities and process.

7. THE INTERNAL CONTROL SYSTEM

The Internal Control System is the set of tools, organisational structures, rules, and company rules aimed at allowing the management of TOTO company to be sound, correct, and consistent with the corporate objectives defined by the Board, through an adequate process of identification, measurement, management, and monitoring of the main risks, as well as through the structuring of adequate information flows aimed at guaranteeing the circulation of information. To certify the integrity, transparency, correctness, and effectiveness of its processes, TOTO adopts rules to carry out company activities and exercise its powers, ensuring compliance with the general principles of traceability and segregation.

7.1 The Supervisory Body

The body entrusted with the task of supervising the functioning and observance of the Model, as well as updating it, must be internal to the entity and provided with independent powers of initiative and control (Article 6, paragraph 1 letter b of the Decree). The explanatory report to the Decree specifies that: "The Entity (...) must also supervise the effective operation of the models, and therefore their compliance: for this purpose, in order to guarantee the maximum effectiveness of the system, provision is made that the company use a structure that must be established within it (so as to avoid easy manoeuvres aimed at pre-establishing a granting of legitimacy to the work of the company through the use of complacent bodies, and above all to establish a real fault of the entity), with autonomous powers and specifically appointed for these tasks (...) of particular importance is the provision of an information obligation towards the aforementioned internal control body, aimed at guaranteeing the operational capacity itself (...)".

The Guidelines suggest that this should be an internal body other than the Board of Directors and the Board of Statutory Auditors, and should contain the following requisites:

- ❖ autonomy;
- ❖ independence;
- ❖ professionalism;

- ❖ continuity of action.

The requisites of autonomy and independence require:

- ❖ the inclusion of the S.B. as a staff unit in a hierarchical position that is as high as possible, entailing reporting to the top management of the company (for example the operational Chairman and/or the Managing Director), but also to the Board of Directors as a whole and to the Board of Statutory Auditors;
- ❖ the absence, for the S.B., of operational tasks that - in making it part of decisions and activities that are, as a matter of fact, operative - would condition the objectivity of the judgement.

The requisite of professionalism must be understood as the baggage of theoretical and practical knowledge of a technical-specialist nature necessary to effectively carry out the functions of the S.B., i.e. the techniques specific to those who carry out inspection and consultancy activities. These are techniques that can be used:

- ❖ as a preventive measure, to suggest possible changes to the Model, where necessary or appropriate to make it more responsive to the needs of crime prevention,
- ❖ on a continuous basis, to verify that the daily behaviours within the institution actually respect the codified ones;
- ❖ in retrospect, to ascertain how it was possible a crime of the sort in question occurred and who committed it.

In order to further guarantee the autonomy and independence, essential for the performance of its task, the members of the Supervisory Body from the time of their appointment:

- ❖ must possess the subjective requirements of integrity, as defined in the Regulation establishing the Supervisory Body issued by the Board of Directors;
- ❖ they must not be in the conditions set forth in article 2382 of the Italian civil code (interdiction, incapacitation, personal effects of bankruptcy, even temporary interdiction, from public offices or inability to exercise managerial tasks);
- ❖ they must not be in a conflict of interest situation, arising from family ties with the top management of the company or from labour relations, to the extent that such relationships objectively compromise their independence.

The autonomy of the S.B. implies a functional independence from the top of the delegated structure, although it is expected that the S.B. report to the highest management level (Chairman or Managing Director), or to the Board of Directors as a whole and, where necessary, also to the Board of Statutory Auditors.

As part of the identification and appointment of the members of the S.B. TOTO has opted for a collegiate composition of the S.B. which includes external professionals with proven expertise in the fields of civil-commercial law and criminal law.

In carrying out its supervisory and control tasks, the S.B. may use the support of other internal functions if it deems it necessary and appropriate with the attribution of roles, responsibilities, and powers indicated on a case-by-case basis.

In accordance with the principles set out in the Decree, the S.B. function cannot be outsourced; it will be possible, however, to outsource (to third parties who possess specific skills deemed useful or necessary) any tasks of a technical nature, whilst the overall responsibility for supervising the Model shall remain in the hands of the S.B.

Furthermore, the S.B. will be provided with adequate spending powers by the Board of Directors. These powers, within the limits indicated in the appointment resolution, may be used to acquire professional consultancies, tools, and/or anything else that may be necessary or appropriate for the performance of the duties of the S.B.

The S.B. assigned tasks/activities include:

- ❖ monitoring the effectiveness of the Model, i.e. to verify its consistency with the actual organisation and operation of TOTO;
- ❖ evaluating the adequacy of the Model in preventing the commission of Offences;
- ❖ proposing any updates or changes to the Model, for example because of changed organisational and/or regulatory conditions;
- ❖ carrying out the verification required by the Model;
- ❖ recording the interventions carried out in the performance of its duties;
- ❖ verifying the compliance with generally accepted principles and best practice standards of the criteria and techniques used for the processing of accounting data and information relating to these, as well as the efficiency of the related administrative processes and control systems;
- ❖ constantly ensuring the required information flows to the Corporate Bodies;
- ❖ developing the supervisory program, in accordance with the principles contained in the Model, within the various business sectors;
- ❖ ensuring the implementation of the supervisory program, including the use of unplanned interventions;
- ❖ identifying, mapping, and classifying all areas of corporate risk;
- ❖ continuously updating and adapting the Model and the supervisory system;
- ❖ reporting to the competent department the need to adopt disciplinary measures against those responsible for violations of the provisions of the Decree;
- ❖ promoting and monitoring initiatives to promote knowledge of the Model, staff training, and awareness of it in compliance with the principles contained in the Model.

The activities implemented by the S.B. cannot be judged by any other company body or structure, without prejudice however to the fact that the Board of Directors is in any case called upon to carry out supervision of the adequacy of its intervention, as the Board has the ultimate responsibility for the operation and effectiveness of the organisational model.

The S.B. reports on the implementation of the Model and the emergence of any critical issues.

There are two reporting lines:

- ❖ the first, informal and on a continuous basis, directly to the Chairman and the Managing Director;

- ❖ the second, to the Board of Directors and the Board of Statutory Auditors. As for this second reporting line, the S.B. draws up:
 - on a half-yearly basis, a written report relating to the activity carried out (especially indicating the controls and verifications carried out and the results thereof, any updates to the Sensitive Processes, etc.);
 - promptly, notifications concerning the hypothesis of serious violations of the Model, occurrence of possible crimes pursuant to Legislative Decree 231/01, information on regulatory innovations in matters of administrative liability of the entities, the need or opportunity to modify the Model (e.g. in the case of changes to the organisational structure).

Furthermore, the S.B. is coordinated with the company Departments for the profiling of their respective activities. The interventions of the S.B., including the meetings with the company departments involved on a case-by-case basis, must be recorded; copies of the minutes must be kept by the S.B. The Board of Statutory Auditors and the Board of Directors have the right to request meetings and consultations with the S.B., which will have a similar faculty with the aforementioned Bodies.

The S.B. must be informed, through specific reports by the parties required to comply with the Model, regarding events that could give rise to the liable of TOTO pursuant to the Decree. On this matter, the following general provisions apply:

- ❖ reports relating to the commission of, or reasonable danger of committing, Offences or, in any case, behaviour generally not in line with the rules adopted in the implementation of the principles and indications contained in the Model must be collected and evaluated by the S.B.;
- ❖ the Employee who intends to report a violation (or alleged violation) involving one of the Offences set forth in the Decree may contact his own direct superior, who will report it to the S.B. If the report fails to produce any result, or the Employee prefers not to contact his immediate superior, the Employee may report directly to the S.B. (dedicated information channels will be set up, in order to facilitate the flow of information to the S.B. and to resolve any cases of doubtful interpretation);
- ❖ the S.B. will assess the reports received and propose the consequent measures to the Board of Directors. There must also be an immediate transmission to the S.B. of information concerning:
 - measures and/or news from Judicial Police Bodies, or from any other Authority, from which it can be inferred that investigations are under way, even against persons unknown, for Offences referred to in Legislative Decree 231/01 that may directly or indirectly involve TOTO;
 - reports prepared by the heads of company departments within the domain of their control activities, from which relevant facts, deeds, or omissions for the purposes of the Decree may emerge.

The Body has free access to all the Company's departments - without the need for any prior consent - in order to obtain any information or data deemed necessary for the execution of the tasks set forth in Legislative Decree no. 231/2001

7.2 The Internal Audit Department

On 19 april 2017 it was established the Internal Audit Deptment in TOTO, in staff of the CEO. The institution of this department in the Company has a strategic relevance and represents a key element in the improvement of the design of the Company's Internal Control and Corporate Governance System.

The internal control system is constituted by analysis and control activities, conducted by the Internal Audit Department, in order to:

- ❖ set methodologies and control instruments in order to create value;
- ❖ help the Company Management in order to improve the quality of the information and of the process management;
- ❖ identify weak points and reduce the risk;
- ❖ verify the compliance with laws and procedures;
- ❖ anti fraud control and prevention.

The Internal Audit has to:

- ❖ work according with the international standards and with an Audit Plan based on a risk analysis structured process;
- ❖ report the activities with an evaluation of the internal control system suitability;
- ❖ work on behalf of the Supervisory Body, through 231 audit activities in order to maintain the efficiency of the Model;
- ❖ give the necessary elements to the Board of Directors in order to express the opinion on the adequacy of the risk and the internal control system of the Company (also with reference to the administrative – accounting aspects, IT and compliance).

The Internal Audit Department acts according to an Audit Plan approved by the CEO and the Supervisory Body. The Plan is based on the following main elements:

- ❖ Targets: the Audit Plan considers the strategic planning goals of the company;
- ❖ Risks: the audit plan has a risk-based approach. The Risk Assessment gives an identification and prioritization of the company risks, annually updated;
- ❖ Process: audit activities are set considering a Relevant Process Mapping («Corporate» and «Project» level). The identification of the relevant process consider specific needs with reference to: the 262/05 Law and the 231/01 Decree (a.e. anti fraud / anti corruption / Health, Safety and Enviroment controls);
- ❖ Business Units: in order to set the scope of the audit activities, the Internal Audit Department considers such specific drivers (a.e. revenues, advanced percentage, geographical presence) on the Company business units.

The methodology followed by the Internal Audit in order to give a priority of the audit activities, is based on a «matrix approach», that means the Process scheme (Corporate and Business level) relevant in terms of risk linked to specific entities of the company.

The Internal Audit utilizes an integrated approach through instruments (Audit Program) that assembles, following a priority, the operational control needs (technical – economic of the business), the administrative and accounting peculiarities (of the financial statement) and the law and compliance requirements.

The Internal Audit Department, sets specific activities in the Plan, and places time consuming for reporting by the Management, in order to study in deep such particular aspects. These activities are called Special Projects could be requested directly by the corporate or project managers, the CEO or the Supervisory Body.

Furthermore the Internal Audit conducts also other activities such as:

- ❖ Promote and treat the knowledge of the 231 Model, the Code of Ethic and the internal control system;
- ❖ Maintain informative flows with the Supervisory Body and manage the reports and the violation of the Code, the Model and procedures;
- ❖ participate in activities in order to define / update procedures and manuals;
- ❖ maintain informative flows with the Administration Department and the External Auditors in order to give an evaluation of the administrative and accounting procedures that support the financial statement draft process according to the 262/05 Law, the Management Letter (adequacy of the systems in order to ensure the Financial Statement: GITC and system controls) and the Risk Disclosure;
- ❖ coordinate the Plans of the Assurance Departments, that include QHSE, and the audit activities related to relevant 231 aspects, regarding in particular to the Health, Safety and Environment.

The Internal Audit, doing its role of internal consultant, could be involved as support in the improvement of the governance of the company, in organization / methodology improvement projects in order to implement process, structures, procedures and systems of the company.

The Internal Audit is entrusted to examine and evaluate, independently, the internal controls efficacy, based on its proper Activities Plan. The audits done are focused on the conformity of the Anti-corruption system, including the compliance with the Model and the Procedures.

The Internal Audit reports to the CEO; every time it is necessary and according with the procedures, informs regarding relevant circumstances and facts or urgent critical issues of the Model taken out through the audit activities. Internal Audit is responsible to draft an Annual Report to the CEO and to the Supervisory Body, that includes the following informations:

- ❖ the activities done in the period;
- ❖ the description of such problems with reference to the procedures or the Modello requirements;

- ❖ the received reports, including the audit activities on them, on an eventual violation, suspected or certified, of the Model or of the internal and external laws, of the ethic principles or any other Anti-corruption laws, and the results of the subsequent audit activities;
- ❖ the disciplinary actions and the sanctions applied, with reference to violations of the Model and the Anti-corruption laws or related procedures;
- ❖ a general opinion of the functioning and efficacy of the Model with possible suggestions, corrective actions;
- ❖ la segnalazione degli eventuali mutamenti del quadro normativo e/o significative modificazioni dell'assetto interno della Società e/o delle modalità di svolgimento delle attività d'impresa che richiedono un aggiornamento del Modello.

Nell'Internal Audit è individuata altresì l'Unità di supporto Anti-corruzione.

7.3 Reports – Whistleblowing

The Italian Law n. 179/2017, has modified the art. 54-bis of the 165/2001 Decree, that sets the protection of public employees who report alleged offenses (*whistleblowing*), and the art. 6 of the 231/2001 Decree, and has integrated the law in terms of office, company, professional, scientific and industrial secret obligation.

TOTO Personnel must report any alleged or claimed violation of this Model and/or internal and/or external regulations, ethical principles or any Anti-Corruption Law, by the Company, by a colleague, by a collaborator or by a third party, including requests for or offers of undue payments received by them. Reports must be sent to the Supervisory Body. These communications can be sent via email. Failure by an employee to report a known or alleged unlawful action of which he/she has become aware will, in itself, subject the employee to possible disciplinary action. Furthermore, no employee will suffer unfavourable consequences for refusing to adopt behaviour that violates this Model, even if this could lead to a loss of business for TOTO or adversely affect its programs. TOTO will not allow retaliation of any kind against an employee who reports suspicions of misconduct in good faith. Whistle-blowers are guaranteed against any form of retaliation, discrimination, or penalisation and in any case the confidentiality of the informant's identity is ensured, without prejudice to the legal obligations and the protection of the rights of the Company or of the persons wrongly accused and/or accused in bad faith.

7.4 Training and Communication

In order to disseminate adequate knowledge and understanding of the contents of this Model, TOTO requires that all its employees with management, administration, management and control functions carry out a compulsory Anti-Corruption and 231 training program. The level of training is modulated, with a different degree of detail, in relation to the qualifications of the recipients and to the different level of their involvement in sensitive activities. The training

activity is managed by the Human Resources Department, with the possible support of external consultants. New employees are given a copy of the Model (in addition to a copy of the Code of Ethics) and are asked to sign a declaration of commitment to respect the principles contained therein. TOTO also provides that, within the first six months from the date of employment and whenever it is deemed necessary (for example, following significant changes in the contents), a training course is provided on this Model and on the Anti-corruption Laws, in order to be able to disseminate their principles, commitments and implementation methods. The Human Resources Department is responsible for the planning of the course, the filing of the distributed material and the registration of the participants as well as the maintenance of every information element in compliance with the applicable laws. The Model is available to all stakeholders on the TOTO institutional website: <https://totoholding.it/costruzioni/>

TOTO may be held responsible for actions carried out by its staff that do not comply with the Anti-Corruption Laws. TOTO Personnel are therefore required to comply with this Model and the Anti-Corruption Laws and no disciplinary or similar sanction will be applied in the event of their refusal to act in a way that violates this Model and/or the Anti-corruption laws. In case of violation of this Model, TOTO will conversely apply the disciplinary actions provided for by the applicable legislation. TOTO governs the process of recruitment and management of Personnel in order to ensure that operational activities are carried out in compliance with the principles of professionalism, transparency, and fairness, respecting the provisions of applicable laws and regulations. These activities are conducted in accordance with company procedures and in compliance with the following principles:

- ❖ the need for employment is proven by specific requirements authorised by subjects with decision-making powers;
- ❖ the candidates are assessed by several people and the results of the entire evaluation process are properly traced;
- ❖ the ethical reliability of the candidates and the absence of potential conflicts of interest are checked;
- ❖ the remuneration and any additional premiums are consistent with the role, responsibility, and company policies.

7.5 Updating and monitoring of the Model

The Model will be subject to continuous monitoring by the S.B. to evaluate its application and effectiveness. Any deficiencies will entail the updating of the Model. Adjustments and/or updating of the Model are expressly prescribed by art. 6, paragraph 1, lett. b) of the Decree, and will be implemented essentially at the time of:

- ❖ regulatory developments;
- ❖ violations of the Model and/or negative results of verifications of its effectiveness (which may also be inferred from experiences concerning other companies);

- ❖ changes to the organisational structure of TOTO, also deriving from extraordinary finance operations or changes in business strategy deriving from new domains of activity.

These interventions are aimed at maintaining the effectiveness of the Model over time, and are therefore of primary importance. The updating and adjustment of the Model are the responsibility of the same body that, pursuant to the Decree, has established its initial adoption, i.e. to the Board of Directors, having heard the opinion of the S.B. The S.B. must notify the Managing Director of any useful element or information to demonstrate the need to proceed with the updating and adjustment of the Model. In any case, the Model will undergo a periodic verification by the S.B., in order to monitor its effectiveness. Update/adjustment proposals for the Model, processed through the participation of the competent corporate departments and/or also using external experts where necessary, will be submitted by the S.B. to the Managing Director, who will submit them to the Board of Directors for a final approval.

7.6 Controls

All business activities, in addition to having specific checks carried out in the normal course of operations, must be carried out in compliance with the following principles:

- ❖ detection and segregation of activities/processes, to be carried out through the application of both organisational tools, such as the separation of tasks and responsibilities, and tools to access information and data, the availability of which must depend on the responsibilities assigned to Personnel;
- ❖ adoption and implementation of adequate internal regulations in order to define the operational procedures of relevant processes and activities;
- ❖ identification of qualified subjects for the performance of specific control and authorisation activities and the assignment of suitable powers and responsibilities in line with the assigned tasks;
- ❖ traceability of all the operations performed and the regular accurate maintenance of records and accounting books.

The protocol system for the prevention of crimes (perfected by the Company on the basis of the indications provided by the Confindustria Guidelines, by jurisprudential elaboration, as well as by international "best practices") was implemented by applying to the individual sensitive activities:

- ❖ General Prevention Principles;
- ❖ General Principles of Conduct;
- ❖ Specific Prevention Protocols.

A. General Prevention Principles

The General Prevention Principles represent the basic rules of the Internal Control System defined by the Company to abide by the Decree and are represented below:

❖ Regulation:

- existence of corporate provisions suitable for providing principles of behaviour, decision-making and operational rules for the execution of sensitive activities, as well as methods for archiving the relevant documentation;

❖ Traceability:

- each transaction relating to the sensitive activity must, where possible, be adequately documented;
- the decision-making, authorisation, and performance process of the sensitive activity must be verifiable ex-post, including through specific document and/or IT supports; in any case, the cases and ways of potential cancellation or destruction of the records made must be regulated in detail;

❖ Separation of duties:

- separation of activities between those who execute, those who authorise, and those who control. This segregation is guaranteed by the intervention, within the same macro business process, of several subjects in order to guarantee the independence and objectivity of the processes. The separation of functions is also implemented through the use of IT systems that entrust certain operations only to identified and authorised persons;

❖ Proxies and mandates: the assigned authorisation and signing powers must be:

- consistent with the assigned organisational and management responsibilities, indicating, where requested, the thresholds for expense approvals;
- clearly defined and known within the Company. The company roles assigned with the power to commit the Company to certain expenses must be defined, specifying the limits and the nature of these. The act of attributing functions must comply with the specific requirements that may be required by law (e.g. delegation and sub-delegation regarding the health and safety of workers).

B. General Principles of Conduct

With reference to the sensitive activities identified for each type of offence, the General Prevention Principles are broken down, in the first instance, into General Principles of Conduct, which require that:

- ❖ all operations, training, and implementation of the Company's decisions comply with the principles and provisions contained in the provisions of the law, the deed of incorporation, the Code of Ethics and the company procedures;
- ❖ the company provisions suitable for providing principles of conduct, decision-making rules, and operating procedures to carry out sensitive activities, as well as methods for filing relevant documentation, be defined and adequately communicated;
- ❖ for all operations:

- the responsibilities of management, coordination, and control within the company be formally established, as well as the levels of hierarchical dependence and the description of the relative responsibilities;
 - the creation steps of the deeds be always documented and easily reconstructed;
 - the authorisation levels for the creation of the deeds be always formalised and documented, to guarantee the transparency of the choices made;
 - the Company adopt tools for communicating the conferred signing powers that guarantee their knowledge within the company;
 - the assignment and exercise of powers in a decision-making process be coherent with the positions of responsibility and with the relevance and/or criticality of the underlying economic transactions;
 - there be no subjective identity between those who take or implement the decisions, those who must provide accounting evidence of the operations decided upon, and those who are required to perform the controls required by law and by the procedures given in the internal control system on these;
 - access to Company data be in compliance with applicable Privacy legislation;
 - access and intervention on the Company's data be permitted only to authorised persons;
 - confidentiality in the transmission of information be guaranteed;
 - the documents concerning the decision-making process, and the implementation of these decisions, be filed and kept, by the competent department, in a way that does not allow its subsequent modification, except with specific evidence. Access to documents already archived is permitted only to authorised persons based on internal regulations, as well as to the Board of Statutory Auditors, the Independent Auditors and the S.B.;
 - there must be a monitoring activity aimed at periodically/promptly updating powers of attorney, delegating functions as well as the control system, in line with the decision-making system and with the entire system of the organisational structure;
- ❖ the Process Manager:
- is formally recognised by the corporate organisational system (e.g. internal proxies, job descriptions, procedures), in compliance with any requisites of efficacy established by law for attributing functions;
 - has all the necessary leverage to pursue the internal objectives of the process itself, in compliance with the timing and the principles that regulate it;
 - is able to supervise all the main phases of the process involved, coordinating and activating the different subjects belonging to the organisational units that take part in it, or that he/she believes must be allowed to take part;

- has full visibility of the entire process as well as (direct or indirect) access to all information on the matter;
- ❖ The Process Manager has the specific responsibility of:
 - ensuring that the process is carried out in compliance with the internal provisions (e.g. company procedures and guidelines) and the current legislation on the subject;
 - ensuring that all the control points on the underlying activities are carried out by the single individuals that take part in the process;
 - ensuring that the entire process is carried out in compliance with the principles of transparency and traceability, on the basis of which each operation must have adequate documentary support;
 - periodically informing the S.B. as defined by this Model, and in any case immediately, if anomalies are found or particular critical situations occur (e.g. violations or suspected violations of the Model, cases of ineffectiveness, inadequacy, and difficulty in implementing control protocols).

C. Specific Prevention Protocols

As part of the Special Sections of the Model, the General Principles of Conduct are defined, for each sensitive activity, in Specific Prevention Protocols, which complete the Internal Control system defined by the Company to comply with the Decree.