



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE AS AT 27/03/2007

Introduction

The aim of this report, approved by the Board on 27/03/2007, is to provide comprehensive information on and full representation of the governance model adopted by Biesse S.p.A. (from hereon referred to as “**Biesse**” or the “**Company**”) at the time of its publication. In particular, the report will show that the Biesse *Corporate Governance* system fundamentally conforms to the principles of the “Code of Conduct for Listed Companies” (from hereon referred to as the “**Code**”) as adopted by the Italian Stock Exchange in March 2006.

To this end, the Report has been divided into two parts:

1. the first part provides a brief description of the Biesse *Corporate Governance* system, its objectives and general principles (*policy*), its organisation and management systems and the responsibilities taken on by the Company and the persons who manage it;
2. The second part is a realistic comparison between the recommendations of the Code and the standards actually adopted by Biesse. This second part will allow an analytical analysis to be carried out of the effective level of conformity to the provisions of the Code, in other words, that which represents the Italian *best practice* on the subject. It will also provide explanations to justify any deviations from the requirements, as required by the so-called “comply or explain” rule.



PART I

COMPANY CORPORATE GOVERNANCE SYSTEM

1. General principles

As mentioned above, the Biesse *corporate governance* system does substantially conform to the principles of the Code, in the belief that said principles provide a major contribution towards implementing the key points of company *policy* in terms of *governance*, in other words:

- clearly defining roles, responsibilities and important parameters in the operation of the company.
- improving the protection and trust of *stakeholders*.
- maximising value for shareholders and other *stakeholders*.
- improving transparency in financial communications with respect to the market;
- improving transparency and correctness in the operations performed by correlated parties and significant persons as well as inter-group relationships;
- improving internal control systems.

The principal documents inherent to Biesse *corporate governance* are:

- Company's Bylaws
- Regulations for Shareholders' Meetings
- Code of practice for *Internal Dealing*
- Regulations on *Market Abuse*
- Code of Ethics as provided for by Law Decree n. 231 of 8th June 2001

To further publicise the *governance* model adopted by the Company throughout the market, the above documents are available *on line* (in Italian and English) on website www.biesse.it (from hereon referred to as "**website**").

2. New advances and activities for 2007

In 2007, the Company will be busy making its *Governance* system fully compliant with the requirements of the Code, as well as implementing company obligations as required by Law n. 262 of 28th December 2005 (Law on Savings) and subsequent amendments (from hereon also referred to as "**Project 262**").



In addition, the Company has already adopted the Organisational Model and Code of Ethics provided for by Law Decree n. 231 of 8th June 2001 (from hereon also referred to as “**Project 231**”), which will be the subject of further discussion later in the report. In the immediate future the Company will also activate and/or implement a series of measures aimed at covering risks relating to sensitive activities and those that could lead to the violations specified in the said law decree.

3. Company organisation, management systems and responsibilities

Company administration and control is based on the traditional model with the presence of a Board of Directors, a Board of Auditors and an external auditor.

The Board of Directors has appointed its own internal Committee for the remuneration of the Directors (Remuneration Committee) and an Internal Audit Committee, the functions and responsibilities of which are discussed later in the report.



PART II

INFORMATION ON THE IMPLEMENTATION OF THE REQUIREMENTS OF THE CODE OF CONDUCT

1. Board of Directors

1.1 Role and composition

The Board of Directors is the central body of the Company's *corporate governance* system and has the responsibility of defining, applying and updating the company governance rules in line with current standards. It is also responsible for determining the strategic guidelines for the management and executive management of both the Company and the Group (intended as being Biesse and its controlled companies as defined by art. 2359 of the Civil Code).

The directors act and make the decisions as required to achieve the primary objective of creating value for shareholders, taking into account the directives and policies defined for the Group as well as the benefits deriving from belonging to the group itself.

As per Art. 16 of the Company's Bylaws, the Board of Directors can consist of a variable number of members from a minimum of two to a maximum of fifteen, including non-shareholders as laid down by shareholders' meeting. Following the decision made at the shareholders' meeting of 14th December 2006, the current Board of Directors consists of seven members whose mandate expires on the date of the balance sheet approval meeting to be held on 31st December 2008.

The Board has appointed four of its members as executive directors:

- Roberto Selci, Chairman and Managing Director
- Giancarlo Selci, Managing Director
- Alessandra Parpajola, Managing Director
- Stefano Porcellini, Managing Director (appointed at the Board of Directors' Meeting of 13/11/2007)

Three of the directors are non-executive as provided for by the Code:

- Innocenzo Cipolletta, Independent Director (replaced on 14/12/2007 by Salvatore Giordano)
- Leone Sibani - Independent Director
- Giampaolo Garattoni - Independent Director

The above independent directors are designated as such on the basis of the provisions laid down by the Code, in that:



- a) they do not control the issuer (Biesse), either directly or indirectly, through any other controlled companies or trustees or any intermediaries. Neither can they exercise any notable influence on the issuer or participate in any shareholders agreements through which one or more persons may have any control or substantial influence over the issuer.
- b) they are not, nor have they been, during the last three financial years, exponents of any significance of the issuer, of any of its strategically important controlled companies or any companies subject to joint control with the issuer, or any companies or entities that can, including in a shareholders agreement with others, control the issuer or have substantial influence over same.
- c) they do not have, nor have they had during the last financial year, any significant direct or indirect commercial, financial or professional relationship:
 - with the issuer, with any of its subsidiaries or with any of their exponents of any importance.
 - with a person who controls the issuer, including together with others through a shareholders agreement, or – in the case of a company or entity – with any of their exponents of any importance. Nor have they been employees of one of these persons during the last three financial years.
- d) they do not receive, nor have they received during the last three financial years, either from a controlled or controlling company, any significant additional remuneration to that “fixed” of a non-executive director of the issuer, including participation in incentive schemes linked to company *performance*, including in terms of shareholdings.
- e) they have not been directors of the issuer for a period of more than nine years during the last ten years.
- f) they do not hold the position of executive director in any other company in which an executive director of the issuer holds a director’s position ;
- g) they are not shareholders or directors of a company or entity belonging to the network of companies undertaking audits of the issuer.
- h) they are not closely related to a person in any of the positions listed above.

The independence of the directors is periodically assessed by the Board of Directors.



Giving due consideration to the fact that international *best practice* advocates avoiding concentrating responsibility on one person without any adequate balancing, and that in the case of Biesse, this concentration (the Chairman is also the Managing Director) is the result of organisational needs, in order to fully comply with the Principles of the Code, the Board of Directors has created the role of *Lead Independent Director*. To fill this position, the Board has appointed independent director Leone Sibani. In order to contribute better to the activities and operation of the Board of Directors, the non-executive directors will refer to the *Lead Independent Director*.

In particular, the *Lead Independent Director* is responsible for:

- liaising with the Chairman in order to guarantee a full and timely flow of information to the directors.
- calling meetings with other independent directors, either on his own initiative or following a request from other directors, to discuss subjects deemed as being relevant to the operation of the Board of Directors or to the management of the Company.

1.2 Powers of the Board of Directors

The Board of Directors has all the powers necessary for carrying out ordinary and extraordinary administration, with the added authority to carry out any activities it deems necessary and appropriate for reaching company objectives, except in the case of activities that are reserved by law for the Shareholder's meeting.

The Board of Directors has been assigned the role of strategic and organisational guidance, as well as the responsibility of verifying the existence of the controls necessary for monitoring the progress of the Company and the Group as a whole.

In particular, the Board:

- monitors the general progress of management, with particular reference to situations concerning conflicts of interest, taking into account information received from executive directors and the Internal Audit Committee and, in general, periodically compares the results obtained with those planned.
- examines and approves the Company's and the Group's budgets as well as their strategic, industrial and financial plans.
- evaluates and approves the periodic reports as required by current legislation.



- examines and approves operations that have a significant economic, patrimonial and financial impact.
- verifies the adequacy of the general organisational, administrative and accounting structure of the Company and Group;
- reports to the Shareholders' meeting;
- determines, through a mandate granted to the independent board member, which proposals to submit to the Shareholders' meeting and to the Board itself regarding the salaries of the individual members of the Board of Directors.
- appoints and fixes the salary of one or more company General Managers whose responsibilities are to implement the decisions made by the Board of Directors. The appointed person/s have the Board's full authorisation to manage the current business, make proposals and exercise any other powers granted to him, either permanent or temporary, by the Board.
- assigns and revokes mandates to managing directors, the executive committee and, where necessary, to one or more board members for specific duties.
- reports to the Auditing Board on activities undertaken and any major economic, financial and asset linked operations carried out by the Company and its controlled companies. In particular, it reports on operations having potential conflicts of interest. These reports are generally submitted during board meetings and, as a minimum, once every three months;

The Board of Directors normally meets six times a year to approve the economic and assets and liabilities situation for the period. This is a requirement for remaining in the Star segment of the Italian telematic stock exchange (MTA).

For the board meetings, the members are provided in advance with the documents and information needed by the members to discuss the issues placed under examination.

2. The Chairman and Managing Director

With a resolution by the Board of Directors on 5th May 2003, the Chairman of the Board of Directors was assigned all the powers of ordinary administration, with the clarification that ordinary administration includes relationships with credit institutions and full authority to sign financial statements of any type, as well as looking after the interests of personnel, buying and selling of vehicles and any capital goods entered on the public register, signing and negotiating promissory notes issued in accordance with Law n. 1329 of 28th November 1965 (the so-



called Sabatini Law), and signing leasing contracts. Furthermore, the Chairman is also the legal representative of the Company.

The resolution of 12th November 2003, however, gave Managing Director Giancarlo Selci the sole mandate to define the Group's strategic policy and undertake the general co-ordination of the Group itself, expressly excluding any and all powers of legal representation and active administration..

The resolution of 15th May 2006 gave managing director Alessandra Parpajola, the mandate to: manage credit risks, appoint and dismiss lawyers and attorneys, represent the Company in court, endowed with sufficient powers to settle or forgo litigation, sign transactions, allow delayed payments and instalments, sign correspondence, sign and endorse bank cheques, arrange credit transfers, sign income tax and VAT returns, sign direct recourse to the tax court, hire and dismiss personnel, settle work disputes, apply disciplinary measures and take any other actions deemed necessary in this particular company sector.

The resolution of 14th December 2006 gave managing director Stefano Porcellini, the mandate to: supervise, control and co-ordinate the administration of the controlled, associated and partially owned companies – supervise, control and co-ordinate the preparation of the Company's Consolidated Balance Sheets for financial years 2006, 2007 and 2008, with the power to appoint consultants and experts - supervise, control and co-ordinate extraordinary operations, with particular reference to share buying – represent Biesse SpA in correspondence and in relations with customers and suppliers for problems regarding administrative and legal aspects, with full authority to settle potential disputes through negotiation of mutual concessions.

3. Appointment of Directors and Appointments Committee

3.1 Appointment of directors

The appointment of the directors takes place through a transparent procedure that also provides sufficient time for the Board to assess the information provided in the *curricula* of the candidates for the post. In fact, in accordance with article 16 of the Company's Bylaws, the nominations for the position of Director, accompanied by detailed information concerning the personal and professional qualifications of the candidates and an indication of the suitability of the candidates to eventually qualify as independent, must be deposited at the Company's registered office at least ten days prior to the scheduled Shareholders' Meeting.

In order to comply with the requirements of Law n. 262 of 28th December 2005, Biesse is currently updating the Company's Bylaws, amending the methods used



to appoint directors by inserting the “list vote” mechanism in the Articles. This modification to the Company’s Bylaws is already included in the Board of Directors’ report compiled in accordance with Appendix 3A of Consob regulation n. 11971 of 1999 and will be on the agenda for the extraordinary meeting to be held on 30th April 2007. It should be pointed out that in compliance with the requirements of the Code, the lists will be deposited at the company’s registered office at least fifteen days prior to the planned date of the meeting.

3.2 Appointments Committee

With the resolution of 5th May 2003, the Board of Directors unanimously decided not to proceed with the nomination of a committee for proposing the appointment of directors, this was also in view of the reduced size of the administrative body itself. The transparency of the nomination procedures and the current balanced composition of the Board is nevertheless deemed to be sufficiently guaranteed by the imminent introduction of the list vote mechanism.

4. Remuneration of Directors and Remuneration Committee

In order to attract, retain and motivate directors possessing the professional qualities necessary for successfully managing Biesse, and in order to ensure that the interests of the executive directors are in line with the primary objective of creating value for shareholders in the medium to long term, a large part of the remuneration of the executive directors and Top Management of the Group is made up of payments linked to the achievement of predetermined economic results and/or individual targets (the so-called *bonus* or variable incentive schemes).

On 15th May 2003, the Board of Directors appointed its own internal Remuneration Committee. The Committee is made up as follows:

- Leone Sibani, Independent Director
- Giampaolo Garattoni, Independent Director
- Salvatore Giordano, Independent Director

The Committee is responsible for (i) presenting the Board of Directors with proposals for the remuneration of the managing directors and monitoring the implementation of the decisions made by the Board itself; (ii) periodically assessing the criteria adopted for the remuneration of managers with strategic responsibilities, monitoring their implementation and formulating general recommendations for the Board. The Committee meets at least twice a year and any decisions made are officially recorded in writing.



5. Internal audit system

5.1 Introduction

In accordance with the most recent *governance* guidelines, the Company's Internal Audit System is made up of series of rules, procedures and organisational structures aimed at ensuring the correct and healthy running of the company in a manner coherent with the predetermined objectives. This it does by appropriately identifying, measuring, managing and monitoring the major risks involved.

In particular, the System is designed to guarantee:

- the efficiency and effectiveness of company operations
- the reliability of economic and financial information
- compliance with laws and regulations
- and, more generally, the safeguarding of company assets.

The Board of Directors is responsible for the internal audit system and lays down its guidelines, periodically verifies its adequacy and its effective operation, including through the Internal Audit Committee itself, and finally it outlines the important aspects in the corporate governance report.

5.2 Internal Audit System

In 2002, the Board of Directors started assessing a major project for analysing and evaluating risk management methods, with the aim of producing an updated reference framework on the basis of which it would be possible to implement a correct risk management policy. This policy, realised and approved in 2005, includes in particular, a coherent set of guidelines and programmes specifically designed for risk management. In addition, it provides specific instructions for monitoring and improvement activities.

The Board of Directors has adopted a working method based on a sequential “process by process” involving

- Identification
- Evaluation
- Management
- Monitoring

of any processes exhibiting risk profiles.



With the processes selected in this manner, the analysis focused on the administrative accounting implications of the more important processes, with identification of the most significant types of risk. The following operations were then carried out for each risk type:

- identification of the control objectives
- accurate definition of responsibilities
- formulation of specific guidelines for the control policies.

In particular, the administrative/financial risk profiles of the following processes were taken into consideration and identified in the following manner:

- Accounts Payable cycle:

Order management → Receipt/control of invoices → Payments → invoices

- Accounts Receivable cycle:

Order management → Shipment and invoicing → Encashment

- Financial cycle:

Exchange risk hedging → Treasury management

- Fixed asset cycle:

Appreciation → Depreciation → Sale/Transfer → Management

- Remuneration cycle:

Hiring and firing → Pay slip processing → Salary payments

- Information systems management:

Continuity → Reliability → Logic and environment safety/security

In creating value for its shareholders, and deeming it fundamental to work in this direction through increasing the protective measures safeguarding the accuracy of information sent to the shareholders themselves, Biesse has introduced measures in order to speedily reach a level of efficiency and clarity in its *compliance* with the provisions laid down by the previously mentioned Law n. 262/2005. In particular, in protecting its shareholders and, more generally, its *stakeholders*, Biesse is introducing procedures that guarantee honesty, accuracy and transparency of the information by means of:

(i) a preliminary action of “*scoping*”, aimed at identifying the principal categories of transactions, identifying transactions not considered as *routine* and identifying the accounting projections to include in the analysis of correlated accounts significant to the consolidated balance sheet, all on the basis of defined quality-quantity criteria (e.g. materiality, inherent risk, etc.).



(ii) a risk assessment activity aimed at ascertaining which processes and sub-processes identified in the *scoping* phase have not been rendered invalid by irregularities, errors or omissions that have not been detected by the internal auditing system and, more generally, by the “*Corporate Governance*” system.

(iii) eventual introduction of new auditing procedures aimed at preventing the risk mentioned in the preceding point (ii) from arising.

(iv) planning, programming and executing a cycle of tests on the entire internal audit system in order to verify its status and efficiency, as well as preparing a *Remediation Plan* fully covering the objectives defined during the *scoping* phase.

5.3 Internal Audit Committee

The Board of Directors has appointed an Internal Audit Committee from its members which, in compliance with the Code, currently consists of three non-executive independent directors:

- Innocenzo Cipolletta (replaced on 14/12/2007 by Salvatore Giordano) – Independent Director
- Leone Sibani - Independent Director
- Giampaolo Garattoni - Independent Director

In addition to assisting the Board of Directors in the execution of the functions provided for in point 5.1, the Committee is also responsible for:

- 1) assessing, jointly with the auditors, the correct implementation of the accounting principles and their suitability for the preparation of the consolidated balance sheet.
- 2) assessing the proposals formulated by the auditing company for carrying out the relative activities, evaluating the working plan set up for the audit and examining the results entered in the report and in any letters of recommendations.
- 3) monitoring the effectiveness of the accounts auditing procedure.
- 4) examining the work plan prepared by the person appointed to carry out the internal audit.
- 5) reporting to the Board of Directors on the activities carried out and the adequacy of the internal audit system.

In 2006, the Board of Directors officially established the function of Internal Auditing currently carried out *ad interim* by the Group’s auditor. In accordance with the provisions of the Code of Conduct which, for this function, requires



compliance with the independence requirements, a candidate has already been identified for the post who is not, in terms of hierarchy, subordinate to the Administration, Finance or Audit functions.

2006 was also the year in which the person to whom the internal audit is referred was identified as the Chairman of the Board of Directors.

6. Transactions with related parties

In transactions with related parties – related parties being those as defined by law (in particular art. 2391 *bis* of the Civil Code) and by the regulations – the Company complies with the transparency requirements and the respect of material and procedural correctness criteria.

Transactions with related parties are subject to the approval of the Board of Directors who may make use of external consultants whenever the characteristics and/or value of the transactions require such.

Administrators having interest, whether direct or indirect, in these transactions must:

- inform the Board of Directors in good time and with sufficient detail of the existence of any interests and the circumstances of same, whether or not they constitute a conflict of interest.
- not take part in the discussion and must abstain from voting.

7. Treatment of reserved information

In accordance with the requirements of the Code, administrators and auditors are obliged to respect the reserved nature of documents and any information acquired during their work, and must comply with the procedures adopted by the Company for internal management and external communication of said documents and information.

7.1 Internal regulations governing the management of privileged information and introduction of a register of persons having access to same

The external communication of documents and information concerning the Company and/or the Group, with particular reference to co-called “*price sensitive*” information, is regulated by a procedure approved by the Board of Directors during the meeting of 14th February 2006. These regulations guarantee the



completeness, correctness, clarity, transparency, continuity, timing and maximum diffusion of information concerning the Company and its subsidiaries, as well as ensuring compliance with primary and secondary standards in force.

The timing and assessment of the relevance of said information for communication to the public is the responsibility of the CFO (Chief Financial Officer) who makes use of the *Investor Relations* function for co-ordinating information sent outside the Company and to whom the following responsibilities are assigned:

- (i) ensuring that the rules are respected. (ii) assisting the Board of Directors, other committees and organisational function/unit managers in ensuring correct compliance with information obligations as regards the market, Consob and the Italian Stock Exchange, at the same time providing for the circulation of information on regulations and general guidelines as issued by the governing bodies of the Market and the Italian Stock Exchange. (iii) co-ordinating with the Marketing and Communications Division in ensuring that the communication of privileged and important information to the public and the marketing of the Company's activities are not done so in a manner that could be misleading. (iv) ensuring that the communications to the public are synchronised as much as possible with those to the various categories of investors and those to all member States in which the Company has either requested or approved negotiation of its financial instruments in a regulated market.

7.2 Code of Conduct on Internal Dealing

On 7th March 2006, The Board of Directors adopted a code of conduct for *Internal Dealing* which regulates the flows of information from subjects governed by the provisions of art. 114, para. 7, of the TUF, and those identified as being "significant" by the code itself, to the Company, Consob and the Market. The code applies to all transactions effected as from 1st April 2006.

The new regulations governing *Internal Dealing* are directly applicable to operations involving buying, selling, underwriting and the exchange of shares issued by Biesse, and to financial instruments linked to these operations performed by "significant persons" or by persons closely related to them. This latter category includes shareholders in possession of at least 10% of the Company's capital stock, effective Biesse Directors and Auditors, as well as persons carrying out management functions, executives with regular access to privileged information and persons having the power to adopt management decisions that could influence the evolution and future prospects of Biesse.



The obligations of transparency apply to all the above operations in which the overall equivalent value reaches 5,000 euro per year, including when carried out by subjects closely related to the “significant persons”.

Biesse has provided for the adoption of *black-out periods*, as per CONSOB resolution n. 15786 of 27th February 2007 for remaining in the STAR sector, on the basis of which it is forbidden for “significant persons” and those closely related to them to perform transactions during the following periods:

- a. From the [fifteenth day] (inclusive) prior to the date fixed for the Board of Directors meeting to approve the draft balance sheet, the half-year report and the quarterly reports up to the moment of publication on the market of the communiqué regarding the decisions made by the Board of Directors.
- b. Without prejudice to that provided for in point a., the period starting from receipt of the communication denoting inclusion in the “Register of persons having access to privileged information”, provided for by art. 115 –bis TUF, up to the moment of publication on the market of the privileged information to which the inclusion on the register refers.

8. Relationships with institutional investors and shareholders

8.1 Investor Relations Manager

Financial communications in Biesse have a primary role in the Group’s value creation process. To this end, Biesse has adopted a strategy aimed at favouring the continuous and correct flow of information between the financial community, the market and the Company itself. Biesse has always been actively involved in promoting continuous dialogue with institutional investors, shareholders and the market, all in line with the procedures adopted for the communication of documents and privileged information outside the company. A specific company function has been set up for this particular purpose, i.e. “*Investor Relations*”. The Investor Relations Manager co-operates with the Board of Directors to guarantee the regular and timely diffusion of detailed information through press releases, meetings with the financial community and periodic updating of the Company’s website (www.biessegroup.com).

During 2006, Biesse participated in all the events organised by the Italian Stock Exchange (STAR event Milan and New York) in addition to creating, under its own initiative, numerous occasions for meetings and reviews with the Italian and international financial community.



8.2 The Biesse website

Still on the subject of favouring financial communications, the Board of Directors is working towards providing easy and timely access to information on the Company that could be important for its shareholders in exercising their particular rights. To this end, Biesse has reserved space within its website for the publication of economic-financial information (balance sheets, quarterly and half-year reports) and information and documents that may be of interest to the shareholders. This documentation will remain published on the site for a minimum period of five years.

8.3 Regulations for Shareholders' Meetings

In 2001, the Company adopted a set of rules to govern shareholders' meetings. These rules are applicable to both ordinary and extraordinary meetings and ensure that the proceedings are executed in an ordered and functional manner, guaranteeing each shareholder the right to participate in each discussion on the agenda.

These rules can be found in the appropriate section of the Company's website.

9. Auditors

The Board of Auditors monitors compliance with legal requirements and with the Company's Bylaws. It also has the function of management control, with the exception of accounting control which is entrusted to an auditing company appointed by the Board from those on the register kept by Consob.

The Company's Bylaws specifies that the Board of Auditors must consist of three statutory Auditors and two deputy Auditors, appointed from the list presented by shareholders representing at least 2% of the shareholdings and with rights to vote at the ordinary shareholders' meeting. The minority shareholders are entitled to elect one statutory Auditor and one deputy Auditor. No shareholder, or shareholders belonging to the same group, can present more than one list or vote for different lists, including through a nominee or fiduciary company. If this rule is broken, the vote of the Shareholder in question will not be taken into account for any of the lists presented. Each candidate can only be present on one list. Failure to comply will mean disqualification.

Lists presented must be deposited at the Company headquarters at least ten days prior to the date for which the meeting of shareholders is first called. It should be pointed out that the agenda for the extraordinary meeting called for 30th April 2007 already includes an amendment to the Company's Bylaws which



will extend the above time period for presentation of the list from ten to fifteen days, as provided for by the Code.

The proposals must be accompanied by the detailed personal and professional curriculum of each candidate and information on their administrative and control functions in other companies, as well as declarations with which each candidate accepts his candidature and certifies that there are no instances of ineligibility or incompatibility and that the legal and statutory requirements envisaged for the respective positions have been fully met.

The Board of Auditors, which was appointed at the ordinary shareholders meeting of 29th April 2006, and which will be in office until the approval of the balance sheet for the financial year ending 31st December 2008, consists of the following members:

- Giovanni Ciurlo, Chairman
- Adriano Franzoni, Statutory Auditor
- Claudio Sanchioni, Statutory Auditor

- Daniela Gabucci, Deputy Auditor
- Cristina Amadori, Deputy Auditor

10. Organisational Model and Code of Conduct as provided for by Law Decree n. 231 of 8th June 2001

The Biesse Board of Directors has approved the Organisational Model (from hereon referred to as "**Model**") in compliance with Law Decree n. 231 of 8th June 2001 governing the administrative responsibilities of "legal entities".

The Model, which is the result of a long and detailed analysis of the risks linked to the Biesse legal entity, is coherent with the principles expressed by Law Decree 231/01 regarding Italian *best practice* and in line with the requirements of Confindustria. In this sense, the Model is ideal for preventing the Company's employees and consultants from running the risk of committing the violations listed in the mentioned law decree and its subsequent modifications.

The model also represents an ulterior element of precision and sense of responsibility in internal relationships and those with the outside world, providing shareholders with a guaranteed and efficient and correct management.

Furthermore, the Model also contains a detailed analysis of the risks relating to the violations mentioned in the code, with particular reference to those connected to Biesse *business*, as well as a list of procedures suitable for bridging any *gaps*



that may appear between the areas identified as potentially at risk and the procedures already operational and followed in Biesse.

The Code of Ethics forms an integral part of the Model and is an official document that specifies the obligations and responsibilities, in terms of ethics, when conducting business and carrying out activities taken on by Biesse and other companies in the Biesse Group. It also regulates the rights, obligations and responsibilities that Biesse takes on with respect to those with whom it interacts when conducting its activities. The aim of the Code is also to introduce and implement, within Biesse, principles and rules of conduct designed to realistically prevent the violations provided for in Law Decree n. 231 of 8th June 2001 from being committed.

Furthermore, a Supervisory Body has been set up, consisting of three Independent Directors, the Biesse Legal Office and Biesse Internal Auditing. The Supervisory Body is responsible for:

- periodically checking the map of violation risk areas (or “sensitive areas”) in order to update it in line with any changes made in the activities and/or structure of the Company. To this end, the Supervisory Body will be informed by *management* and/or those monitoring the activities of the individual functions, of any situations that could expose the Company to a risk of violation.
- carrying out periodic checks in order to ensure compliance with the requirements of the Model, ensuring, in particular, that the procedures and required controls are being implemented and documented in the appropriate manner and that the code of ethics is being respected.
- carrying out periodic checks on specific operations or activities being carried out, above all with respect to sensitive areas. The results of these checks will be summarised in a report, the content of which will be made known in communications to the various company functions.
- guaranteeing that any corrective actions deemed necessary to render the Model more suitable and effective are implemented immediately.
- collecting, processing and filing all relevant information relating to the Model, as well as updating the list of items of information that the Supervisory Body itself should receive. To this end, the Supervisory Body has free access to all relevant company documentation and receives continuous
- information from management on: aspects of company activities that could expose the Company to risk following perpetration of one of the violations specified by the Decree, as well as information on relationships with Consultants and Partners.



- periodically referring to the Chairman, the Board of Directors and Board of Auditors on matters regarding implementing company policies particularly for the operation of the Model.
- monitoring any violations of the Model, including any violations of the Code of Conduct.

In order to perfect the Organisational Model, the Company is proceeding with the creation of an organised and regimented system of control procedures and activities (both through the improvement of the existing procedures, in terms of efficiency, and through the introduction of new ones) aimed at covering risks deriving from sensitive activities and those that could lead to the commitment of the violations specified in the mentioned decree.

Biesse, through its parallel implementation of the two mentioned projects (Project 231 and Project 262), is conducting a winning strategy in terms of increasing value for shareholders, in that it can guarantee full coverage, and as a result, is perfect for protecting shareholders and, more generally *stakeholders* against possible risks inherent to *Corporate Governance*, including in the future.

Pesaro, _____

For the Board of Directors

Chairman

Roberto Selci



APPENDICES:

- a) Structure of the Board of Directors and Committees
- b) Structure of the Board of Auditors
- c) Other requirements of the Code of Conduct
- d) List of functions covered by the Board of Directors in other listed companies, finance companies, banks and insurance companies or companies of any significant size.
- e) Code of Conduct, edition March 2006