

Corporate governance and Ownership Report

pursuant to art. 123-bis of Consolidated Law on Finance

(2010 Financial Year)



Issuer: **BIESSE S.p.A.**
Web site: www.biesse.com

Financial year to which the Report refers: 1 January 2010 – 31 December 2010
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GLOSSARY

Biesse or the Issuer or the Company: Biesse S.p.A., registered office in Pesaro, in Via della Meccanica 16.

The Code/Corporate Governance Code: the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A., approved in March 2006 by the *Corporate Governance* Committee.

Civil code: the Italian Civil Code.

Board: the Issuer's Board of Directors.

Financial year: the financial year to which the Report refers.

Group or Biesse Group: collectively, the Issuer and its subsidiaries as per Article 93 of the Consolidated Law on Finance.

Changes to the Articles of Association: changes made to the Company Articles of Association by the Shareholders' Meeting on 19 October 2010, based on the provisions of Legislative Decree No. 27/10

Consob Issuers' Regulations: the Regulations promulgated by Consob with Resolution no. 11971 of 1999 (and subsequent amendments thereto) on issuers' matters.

Report: this corporate governance and ownership report is required under Article 123-*bis* of the Consolidated Law on Finance.

TUF or Consolidated Law on Finance Italian Legislative Decree No. 58 of 24 February 1998, as amended.

1. ISSUER PROFILE

a) Operations

Biesse operates in the market of machinery and systems for processing wood, glass, marble and stone. The Company offers modular solutions that range from the design of turnkey systems for large furniture manufacturers to individual automatic machines and workstations for small- and medium-sized companies, to the design and sale of individual hi-tech components.

As a multinational with production plants in Italy, the Biesse Group markets its products through a network of subsidiaries and 15 branch offices located in markets considered strategic. The branch offices ensure specialised after-sales service to customers, while also carrying out market research aimed at developing new products.

Biesse's *mission* is to provide the furniture industry with technological solutions for the machining of wood, glass, marble and stone into everyday objects, and as a global partner, provide reliable, cutting-edge solutions in addition to a specialist after-sales service that is quick, efficient and effective.

The Company carries out all activities aware of its moral and social responsibility vis-à-vis all stakeholders (employees, shareholders, clients, suppliers, communities, business and financial partners, institutions, trade associations, trade union associations, etc.) convinced that achievement of the company' objectives (first and foremost creating added value for shareholders, clients and the community in which Biesse operates) must go hand in hand with adhering to specific company values, as well as to current regulations and in general with acting honestly, with integrity, in conditions of fair competition, impartially and in good faith.

b) Corporate Governance System

Shareholders exercise their rights through shareholders' meetings. Decisions taken at shareholders' meetings in compliance with law and the Articles of Association are binding on all shareholders, including those that dissent or abstain from voting. Ordinary and extraordinary shareholders' meetings and shareholder decisions are valid where the quorum, voting majorities and other statutory requirements contemplated by laws in force are satisfied.

The Company has adopted a traditional governance and control model, consisting of a Board of Directors, a Board of Auditors, and an independent auditor.

The Board of Directors is vested with all powers of ordinary and extraordinary administration. As such, it plays a central role in the Company's corporate governance. The Board of Directors has established two Board committees: the Remuneration Committee and the Internal Control Committee.

The Board of Auditors oversees compliance with law and the Articles of Association and is responsible for management control.

As required by law, an independent auditor appointed by the shareholders and registered with Consob is responsible for the auditing of accounts.

Further on in this Report, a detailed description is provided of the role, responsibilities, composition and operation of each of the aforementioned governance bodies.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (at 16/03/2011)

a) Share capital structure

The share capital, totalling €27,393,042, is fully paid up and divided into registered, ordinary shares with a par value of one euro each.

<i>SHARE CAPITAL STRUCTURE</i>				
	No. of shares	% of share capital	Listed/Not listed	Rights and obligations
Ordinary shares	27,393,042	100%	Listed on the MTA, STAR segment	All shares are nominative, freely transferable, and indivisible. Each share entitles the holder to one vote at the company's ordinary and extraordinary shareholders' meetings, in accordance with laws in force and the Articles of Association, and attribute the additional administrative and equity rights attached to voting stock by law.

At the date of this Report, the Issuer has not issued other categories of shares, or financial instruments that may be converted into or traded for shares.

b) Restrictions on the Transfer of Securities

There are no restrictions of any kind on the transfer of Company securities.

c) Significant equity investments in the share capital

Shareholders holding more than 2% of the subscribed share capital in the form of voting stock, as confirmed by the share register and disclosures received in accordance with Article 120 of the Consolidated Law on Finance and other available information, are listed in the table below.

<i>SIGNIFICANT EQUITY INVESTMENTS IN THE SHARE CAPITAL</i>			
Declarant	Direct shareholder	% of ordinary share capital	% of voting share capital
Selci Giancarlo	Bi.Fin S.r.L.	58.464%	58.464%
Financiere de L'Echiquier SA (as manager, inter alia, of the FCP Echiquier Agenor fund which holds 4.417%)	Financiere de L'Echiquier SA	4.848%	4.848%

d) Securities that grant special rights

The Issuer has not issued securities that grant special controlling rights.

e) Employee share ownership: mechanism to exercise voting rights

The Issuer has not adopted any share ownership scheme for its employees.

f) Restrictions to voting rights

There are no restrictions on the voting rights attaching to ordinary shares. The Issuer has issued ordinary shares only.

g) Shareholder agreements

To the Company's knowledge, no shareholder agreements have been made pursuant to Article 122 of the Consolidated Law on Finance.

h) Change of control clauses

Neither the Issuer nor any of its subsidiaries have made or entered into significant agreements that take effect, or entail amendments or termination in the event of a change of control of the Company.

i) Powers of Attorney to Increase the Share Capital and Authorisations for the Acquisition of Treasury Shares

No authorisation has been given to the Board of Directors to increase the share capital in accordance with Article 2443 of the Civil Code, or to issue equity instruments.

On 12 November 2009, the shareholders authorised the Board of Directors to purchase treasury shares pursuant to Article 2357 of the Civil Code, for up to a limit of 10% of the share capital; purchases may be made at any time, in one or more tranches, within a period of 18 months starting from 12 November 2009. With resolution dated 19 October 2010, the Shareholders' Meeting expressly authorised use of these shares in the framework of the "Retention Plan 2011-2013", which is discussed in point 8.

At 31/12/2010, the Issuer was in possession of a total of 486,359 shares, representing 1.775% of the share capital, for a value of € 2,600,000.00.

l) Management and Co-ordination

The Issuer is controlled by B.I.FIN S.r.l., which in turn is not controlled, as defined by Article 93 of Legislative Decree No 58/1998, by any legal entity. The Issuer is managed and co-ordinated by its controlling shareholder B.I.FIN S.r.l.

As required by Article 2497 *bis* of the Civil Code, all the Italian subsidiaries controlled directly by the Issuer have, almost without exception, disclosed that they are managed and co-ordinated by the Issuer.



The information required by Article 123 *bis* (1)(i) and (l) is disclosed in this Report respectively under the Section 8 (remuneration of directors) and Section 4.1 (appointment and substitution of directors).

3. COMPLIANCE

The Issuer has endorsed the "Corporate Governance Code for Listed Companies", in the version approved by Borsa Italiana in March 2006 (hereinafter the "Code"). The Code can be accessed on the Borsa Italiana website (www.borsaitaliana.it).

In its meeting on 19 October 2010, the Shareholders' Meeting approved the Changes to the Articles of Association and the Shareholders' Meeting Regulations (hereafter also "Changes to the Articles of Association") based on the provisions of Legislative Decree No. 27/2010 and the Regulations on Related-Party Transactions, adopted by the Consob with resolution No. 17221 of 12 March 2010 as amended (discussed in point 11 below).

The Issuer's corporate *governance* system complies with the principles identified by the Code. Together, these principles form the cardinal points shaping the Company's corporate *governance* policy, namely:

- the clear definition of roles and responsibilities, and thresholds for determining the materiality of corporate transactions;
- boosting the confidence of and protection afforded to *stakeholders*;
- maximising value for shareholders and other *stakeholders*;
- improving transparency in financial reporting to the market;
- improving transparency and the propriety of transactions performed by related parties and relevant persons and of intragroup transactions;
- improving internal control systems.

The Issuer's key *corporate governance* documents are:

- The Articles of Association;
- The Shareholders' Meeting Regulations;
- The *Internal Dealing* Code;
- The *Market Abuse* Regulations;
- The Organisational Model, inclusive of the Code of Conduct, pursuant to Legislative Decree No. 231 of 8 June 2001;
- ICFR Model (*Internal Control over Financial Reporting*) Law No. 262 of 28 December 2005;
- Procedure to regulate related party transactions according to the provisions of the CONSOB Resolution No. 17221 of 12 March 2010 as amended.

With a view to facilitating the market's understanding of the corporate *governance* model adopted by the Issuer, the above documents (with the exception of the ICFR Model) are available *on-line* (in Italian and English versions) at www.biessegroup.com.

The Issuer and its strategic subsidiaries are not subject to non-Italian laws that may in any way influence the Issuer's *corporate governance* structure.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND SUBSTITUTION

Directors are appointed through a transparent procedure, designed to guarantee that timely and suitable *background information* on candidates is provided. As required by Article 16 of the Articles of Association, nominations for the office of Director include exhaustive information on the personal and professional characteristics of the candidates, along with an indication of whether they satisfy independence criteria.

Similarly, in order to comply with the provisions of Law No. 262 of 28 December 2005, the Issuer has adjusted the company Articles of Association, changing the methods for appointing directors or by including the "voting list" mechanism in the Articles of Association. Based on the Changes to the Articles of Association, the Company also introduced the obligation to file the lists at the company headquarters no later than the twenty-fifth day prior to the date set for the Shareholders' Meeting and to make these available to the market, with the methods set forth by law and by Consob in its Regulation, at least twenty-one days prior to the Shareholders' Meeting.

Based on the Changes to the Articles of Association, the Articles of Association also sets down that Shareholders are entitled to submit voting lists if, individually or with other Shareholders, they represent at least 2.5% (two point five percent) of the share capital or hold another minimum ownership share as established by Consob in its Regulation.

No Shareholder may submit or participate in submitting more than one list, by proxy or by fiduciary company. Every vote holder may vote on only one list.

Members of the Board of Directors are elected through the following procedure:

- a) all the directors to be elected less one are selected from the candidate list which obtains the highest number of shareholder votes, based on the sequential order in which they appear in the list;
- b) the first name on the candidate list which obtains the second highest number of shareholder votes is selected as the remaining director to be elected.

The first candidate on the candidate list obtaining the highest number of shareholder votes is appointed Chairman of the Board of Directors.

Where only one candidate list is filed or voted for, all the candidates on the list are appointed to the Board.

Where no candidate lists are filed, the Board of Directors is appointed by the shareholders with the voting majority required by law.

4.2 COMPOSITION

Under Article 16 of the Articles of Association, the number of members of the Board of Directors may vary between a minimum of two and a maximum of fifteen directors, who may be either shareholders or non-shareholders, as appointed at the shareholders' meeting. The present Board of Directors consists of eight members, whose term of office expires upon approval of the financial statements as at 31 December 2011. Of the present directors, seven were appointed by resolution of the Shareholders' Meeting held on 28 April 2009, following their election from the single candidate list filed by the shareholder Bi.Fin. S.r.l., with 16,015,000 votes in favour, representing 58.464% of the share capital. No other candidate lists were filed.

The eighth member of the Board (Giovanni Barra), appointed subsequently by the Shareholders' Meeting of 12 November 2009, pursuant to an increase in the number of Board members from 7 to 8, tendered his resignation on 22 October 2010; as a result, the Board of Directors coopted Giorgio Pitzurra on 18 January 2011, as a new member of the Board, with the approval of the Board of Statutory Auditors and vested with the specific powers of Managing Director. Mr. Pitzurra will remain in office until the next shareholders' meeting, scheduled in a first calling for 28 April 2011, which will be convened to pass resolution on his confirmation.

The Board of Directors consists of five executive directors:

- Roberto Selci, Chairman and Chief Executive Officer;
- Giancarlo Selci, Chief Executive Officer¹;
- Giorgio Pitzurra, Chief Executive Officer;
- Alessandra Parpajola, Director;
- Stefano Porcellini, Director.

¹ With the power of strategic guidance and coordination of the Group, and expressly excluding any power of legal representation and active administration.

Three members are non-executive independent members, in accordance with the Code:

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

Brief information is reported below on the personal and professional backgrounds of the individual members of the Board of Directors.

Roberto Selci, born in Pesaro on 18 April 1960, joined the Biesse Group in 1988. Covering various roles in Sales/Marketing at length in the Company's Asian and US branches, he went on to promote the internationalisation of the Biesse Group in subsequent years.

Giancarlo Selci, born in Pesaro on 2 January 1936, is the Company's founder. Awarded the honours of *Ufficiale* and *Cavaliere del Lavoro*, he has always been actively involved in all Biesse operations, and it has been under his guidance that the Group has grown constantly to reach international proportions and become a multinational of reference for the sector.

Giovanni Barra (who resigned from office on 22/10/2010), born in Turin on 30/01/1960, joined the Biesse Group in 2009 and held the position of Chief Executive Officer. After graduating in Economics from the University of Turin, he went on to gain extensive management experience in leading multinationals - in particular the FIAT Group - before spending the past ten years with CNH (Case New Holland) Brazil and USA.

Giorgio Pitzurra, (coopted on 18/01/2011) born in Domodossola (NO) on 10/05/1949, joined Biesse after accruing considerable experience abroad with major multinational companies (*FIAT - ILVA - Pirelli - Ideal Standard - Kohler*). In particular, with Ideal Standard and Kohler, Giorgio Pitzurra held the position of President of Europe - Middle East - Africa.

Alessandra Parpajola, born in Dolo-Venice on 12 June 1973 is an Executive Director of the Group. After graduating in Business Economics from Bocconi University in Milan, she began her career in her family's company. Ms Parpajola joined Biesse in September 2003 in the role of Credit Manager. Married to Roberto Selci, she co-ordinates the Group's *risk management* activities and actively participates in the management of all the main head office departments and areas.

Stefano Porcellini, born in Rimini on 23 November 1965, is an Executive Director of the Group and graduate in Business Economics, major in Finance, from Bocconi University in Milan. He began his career in Accenture, where he worked in Financial Markets for five years. He joined the Group in 1995, initially as Head of the Branch Division. In 1999 he became Biesse Plant Manager, before being transferred in 2001 to manage the Company's public float and stock exchange listing. He then became head of the Wood Division, and in October 2003 Group Chief Financial Officer in charge of administration, finance and control. In November 2006 he was appointed to the Board of Directors of Biesse.

Leone Sibani, born in Bologna on 14 April 1937, Independent Director, is the Chairman of the Board of Directors of IMI Investimenti S.p.A. and IMI Fondi Chiusi sgr S.p.A., the Chairman of the Board of Directors and Chief Executive Officer of Cassa di Risparmio della Repubblica di San Marino S.p.A., Board member of Banca dell'Adriatico S.p.A., Board member of Tregi Fin, Acting Auditor in Lineapelle S.p.A., member of the Steering Committee at Cassa di Risparmio in Bologna S.p.A., and Chairman of the Supervisory Body of Bologna Fiere S.p.A.

At 31/12/2010, Mr. Sibani owned 500 shares of the Issuer.

Giampaolo Garattoni, born in Pesaro on 12 April 1943, Independent Director, is Board member of Aksia Group SGR SpA, Sole Director of Regatta Srl, Sole Director of Onboard Srl, and Sole Director of Welcome Srl.

At 31/12/2010, Mr. Garattoni owned 30,000 shares of the Issuer.

Salvatore Giordano, born in Pietrafitta di Cosenza on 10 September 1950, Independent Director, is a graduate in Law from the University of Camerino (Macerata). After specialising in Industrial relations at Bocconi University in Milan, he began his career with the Industrial Association of Ancona. In January 1991, he became General Manager of Confindustria Pesaro-Urbino, Executive Director of Assindustria Consulting s.r.l., and Chairman of Centrale GPA S.p.A.

The Board of Directors has resolved to not set general criteria on the maximum number of offices directors may hold on the boards of directors and statutory auditors in other companies considered compatible with the effective running of the Board of Directors of the Company, considering this assessment to be the responsibility of Shareholders in designating directorships and subsequently, as each candidate accepts the role. However, if the Board sees the need and based on the information received from directors, it may verify the following assessment criteria: (i) the role of Director in the Company (executive, non-executive, independent, member of one or more committees); (ii) the nature and size of the organization in which the positions are held and the role of Director versus these organizations (which concerns the company purpose, the governance structure, the number of meetings in which the director must attend as a result of this role, responsibilities assigned to the directors and any other mandates; (iii) whether these organizations are related to the Issuer's group.

4.3 ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is the central body of the Company's corporate governance system. It is responsible for setting, enforcing and updating the Company's corporate governance rules, in compliance with laws in force, and identifying strategic guidelines for the steering and management of the Company and Group (i.e. Biesse and its subsidiaries, as per Article 2359 of the Civil Code).

The actions and decisions of the directors are shaped by the primary objective of creating value for shareholders, in consideration of the directives and policies of the Group and the benefits connected with belonging to the Group.

The Board of Directors is vested with all powers of ordinary and extraordinary administration. It has the power to make all the decisions deemed necessary or conducive to the pursuit of the Company's business purpose, with the exclusion of decisions reserved to shareholders by law.

The Board of Directors has been assigned a strategic and organizational role, in addition to responsibility for verifying the existence of the controls that are needed for supervising the conduct of the Company and the Group as a whole.

Specifically, the Board of Directors is responsible for:

- overseeing the general management of operations, with a particular focus on potential conflicts of interest in connection with the information received by executive directors and the Internal Control Committee, and in general comparing the Company's performance to forecast results on a periodic basis;
- reviewing and approving the budget and strategic, industrial and financial plans for the Company and the Group;
- evaluating and approving the periodic reports required by regulations in force;

- examining and approving in advance any transactions of strategic, financial, economic or business significance proposed by the Issuer and its subsidiaries;
- verifying the suitability of the general organisational and administrative structure and accounting system of the Company and the Group;
- reporting to shareholders at shareholders' meetings;
- determining, by proxy granted to the Independent Director, which proposals to submit to the shareholder's meeting and the Board itself for the remuneration of individual Board members;
- appointing and defining the salary of one or more General Managers to implement the resolutions taken by the Board of Directors and, under delegation, manage day-to-day business, making suggestions and using the permanent or temporary powers delegated by the Board;
- delegating and revoking powers and duties to the CEOs, executive committee and, if necessary, to one or more Board members with regard to the particular tasks;
- reporting to the Board of Auditors on their activities and on the main economic, financial and asset operations carried out by the company or its subsidiaries and, in particular, on transactions that give rise to potential conflicts of interests; these reports are usually made during the Board's meetings, and at least once a quarter.

The Board of Directors has assessed the adequacy of the Issuer's general organizational and administrative structure and accounting system, as outlined by the CEO, with particular focus placed on the internal control system and the management of conflicts of interest. The assessment of the internal control system involved the mapping of all the Issuer's administrative processes and the identification of the main controls over those processes, which were then tested to assess their effective operation and functioning.

The Board of Directors also assessed the adequacy of the general organizational and administrative structures and accounting systems of the strategic Company's subsidiaries, as outlined by the authorized bodies, with particular focus placed on their internal control systems and the management of conflicts of interest.

Following the adoption on 28 April 2009 of the shareholders' resolution setting global remuneration for the Board of Directors, at its meeting on 28 April 2009, the Board of Directors, at the proposal of the Remuneration Committee, decided on the distribution to the directors of the global remuneration approved at the shareholders' meeting. For more information, see paragraph 8.

The Board constantly monitored the general results of operations through its meetings, taking into consideration the information received from the authorized bodies, as well as periodically comparing the Company's performance to forecast results.

With regard to the prior approval by the Board of Directors of related-party transactions and/or transactions affecting the interests of one or more directors or third-party interests they may represent, see section 11 below.

The Company has adopted a specific procedure to comply with the obligation binding under Article 150 of the Consolidated Law on Finance, under which transactions proposed by the Issuer or its subsidiaries of strategic, economic, financial or business significance for the Issuer require the prior approval of the Board of Directors.

In accordance with the provisions of Article 2.2.3(a) of Borsa Italiana Regulations, the Board of Directors holds at least five meetings a year, in order to approve the financial reports required of companies listed on the Star segment of Borsa Italiana's electronic equity market (MTA).

During the financial year closed 31 December 2010, the Board of Directors held seven meetings, each lasting three hours on average. For the year that will end on 31 December 2011, the Board of Directors has scheduled five meetings, one of which has already been held on 18 January 2011 to execute, *inter alia*, the co-opting of Mr. Pitzurra to replace the outgoing Mr. Barra.

For Board meetings, directors are provided at least one week in advance with the documents and information needed by the Board to transact the business on the agenda. Board meetings are regularly attended by the lawyer Mr. Achille Marchionni, who acts as secretary.

4.4 AUTHORISED BODIES

Chairman of the Board of Directors

By resolution of the Board of Directors adopted on 28 April 2009, the Chairman of the Board of Directors has been delegated all powers of ordinary administration, including therein the power to manage relations with credit institutions and the signatory powers necessary for the lodging of tax statements of all kinds, human resources management, the purchase and sale of motor vehicles and capital goods registered in public registers, the negotiation of bills of exchange issued pursuant to Law No. 1329 of 28 November 1965 (so-called "Sabatini Act") and finance leases. The Chairman is also empowered to represent the Company legally. The Chairman has chief responsibility for the management of the Issuer.

Chief Executive Officers

By resolution of the Board adopted on 28 April 2009, the CEO Giancarlo Selci is responsible solely for the strategic steering of Group policy and the general co-ordination of the Group, with the explicit exclusion of all powers of legal representation and active management.

The other CEO, Giorgio Pitzurra, who was selected to replace Giovanni Barra pursuant to his resignation on 22/10/2010 approved by the Board on 18 January 2011, has the following responsibilities: the implementation of Company and Group strategy; the preparation of the annual budget for approval by the Chairman of the Board of Directors, subject to the assessment of the Chairman; ordinary administrative and commercial management of the company, with the power to sign correspondence, manage relationships with credit institutions for payable and receivable transactions, with a per transaction limit on payables of € 750,000.00 except for payables relating to employee salaries and wages, for which the limit is increased to € 2,000,000.00 per transaction; ordinary management also includes sale of property listed in public registers as well as equipment leasing and/or entering into long-term lease agreements, rental, shipping, contracting and subcontracting, entering into insurance policies on behalf of the company, agencies and representation, and so on, with the consequent power to void, rescind, terminate, and withdraw from said contracts. acceptance and endorsement for payment on and for discount of promissory notes, bills of exchange, and cheques of any nature, and payment orders in general issued to the Company by third parties (including but not limited to, bills of exchange, lines of credit, notes, postal wires payable at banks, postal and telegraphic offices, and with any individual or legal person); stipulation of agreements of conventional sequestration and filing for court-ordered sequestration; the settlement of disputes, granting of discounts, instalment payments and discounts within the limits of € 200,000 (two hundred thousand and no cents) per transaction; representation of the Company before representatives of the Savings and Loan Office, the Bank of Italy, and the Italian Exchange Office for all financial and commercial transactions in foreign currency, as well as before any credit institution or private bank, execute any transaction with customs offices, postal and telegraphic offices to make shipments, deposits, release and withdrawal of merchandise, values, packages and parcels, certified letters and insured correspondence, issuing receipts; representation of the Company before any public or private office

and in particular with the financial administration, central and local, public, state, regional and provincial officials, carrying out all transactions, bar none or no exceptions, as set forth by the respective laws and necessary for correct company management; representation of the Company before the Regional Tax Offices, the Revenue Offices, the Technical Tax offices, Tax Offices, Financial Administration, including local offices for local taxes, preparing, signing and filing statements, petitions, appeals, and claims, reports and certifications for third-party income subject to withholding and any other tax statement, filing claims against tax assessments and assessed taxes before the Tax Commissions at every level and degree, the Court of Cassation, suggest and accept to agree and settle disputes, sign them, request licenses and permits; the representation of the Company with utilities, phone services and similar providers, as well as with the post office, depositing and withdrawing from these accounts, in the framework of prevailing regulations; the representation of the Company before the Inspectorate of Labour, provincial and regional labour offices, mandatory workers' insurance institutes, social security institutions, the reconciliation commissions and arbitration tribunals contemplated under applicable collective bargaining regulations, trade unions and their committees, for the resolution of disputes with employees and contract staff, as well as in negotiations on employment contracts, agreements and disputes, with the power to sign deeds and compound and settle any dispute or issue pending with the said bodies, up to a maximum limit of €100,000 (one hundred thousand euros and no cents) per settlement for staff up to management level, and up to a maximum limit of the notice period plus 12 (twelve) months' salary for senior managers; the representation of the Company before any Administrative authority, central or branch office, including police, local and autonomous bodies for issue of licenses, authorisations and permits; the execution of any transaction at the Department of Motor Vehicle, filing applications for legal transfers, updates and identification of situations, validly endorsing the related documents and files on behalf of the Company; the representation of the Company before any Administrative authority or Court or arbitration, in any seat and degree of jurisdiction, appointing attorneys and representatives ad litem, vesting them with the appropriate powers; the ability to come to settlements about every dispute or litigation of the Company with its independent contractors or employees, up to a maximum amount of € 100,000 (one hundred thousand and no cents) for each position up to middle management, up to an amount equivalent to more than 12 (twelve) monthly payments for the role of executive; the ability to file requests for evidence or oppose such proof, make a free or formal questioning, elect domicile; appoint trade associates and agents, determining their commissions and fees, as well as their areas of activity; the appointment of agents for certain deeds or categories of deeds within the powers delegated, and the delegation of signatory powers and the representation of the Company, up to a limit of €200,000 (two hundred thousand euros and no cents) per transaction

The CEO also holds the capacities and responsibilities contemplated in Legislative Decree No. 81 of 9 April 2008, in particular the role of "Employer" with the power to delegate, within the limits permitted by law, any task necessary and/or conducive to ensuring full compliance with laws in force. In addition to this, the CEO holds the capacities and responsibilities, with the power to delegate, contemplated in Legislative Decree No. 196 of 30 June 2003 governing the protection of personal data. The CEO reports to the Board of Directors and the Board of Auditors at least once every quarter on the performance of his duties and responsibilities.

Directors

Also by the resolution adopted on 28 April 2009, the director Alessandra Parpajola is responsible for: the management of credit risk, the appointment and revocation of legal counsel and attorneys, and the representation of the Company in courts of law, with full power to compound and/or abandon disputes and authorise settlements, to grant moratoriums and extensions on payments, to negotiate and sign forfaiting, factoring and discount agreements without limit; the power to sign correspondence, sign and endorse cheques, order bank transfers, sign income tax and VAT statements, and sign appeals to tax commissions; the power to

approve the recruitment and dismissal of employees, settle labour disputes, impose disciplinary measures and perform any other act necessary with regard to Company HR.

By the resolution adopted on 28 April 2009, the director Stefano Porcellini is responsible for: the administrative supervision, control and co-ordination of subsidiaries, associates and joint ventures; the supervision, control and co-ordination of the financial reports of Group companies and the consolidated financial statements, with the power to engage consultants and advisers; the supervision, control and co-ordination of Group taxes, with the power to engage consultants and advisers; the supervision, control and co-ordination of extraordinary transactions, with particular reference to the acquisition of equity interests; representing Biesse S.p.A. in business correspondence and relations with customers and suppliers with regard to administrative and legal issues, with the power to compound and settle disputes out of court; representing Biesse S.p.A., severally and jointly with the Chairman, at the shareholders' meetings of the Group's Italian and foreign subsidiaries.

The aforementioned executive directors all duly reported to the Board of Directors on the performance of their duties and responsibilities at each Board meeting held.

4.5 OTHER EXECUTIVE DIRECTORS

There are no other executive directors on the Board of Directors.

4.6 INDEPENDENT DIRECTORS

The independent members of the Board all satisfy the independence criteria identified by the Code, as:

- they do not control the Issuer either directly or indirectly, or through subsidiaries, trustees or nominees, nor are they in a position to significantly influence the Issuer or become party to a shareholders' agreement through which one or more entities would be able to control or have significant influence over the Issuer;
- in the previous three financial years, they were not corporate officers of the Issuer or any of its strategic subsidiaries, or of any joint venture of the Company, or of a company or entity that through a shareholders' agreement could control or have a significant influence on the issuer;
- they do not have, and did not have in the previous year, either directly or indirectly, significant commercial, financial or professional ties: (i) with the Issuer, any of its subsidiaries or any of its corporate officers; (ii) with a person that through a shareholders' agreement could control the Issuer or, in the case of a company or entity, with any of its corporate officers; nor, in the previous three financial years, were they employees of any of the aforementioned entities;
- they do not receive, and did not receive in the previous three financial years, any large bonuses from the Issuer, or from a subsidiary or Parent Company, additional to the fixed emoluments of a non-executive director of the Issuer, including therein interests in performance-based incentive schemes, such as stock option plans;
- they have not been directors of the Issuer for more than nine years out of the past ten years;
- they do not hold the position of executive director in another company in which one of the Issuer's executive directors is also a director;
- they are not shareholders or directors of a company or entity belonging to the network of the independent auditor engaged by the Issuer;

- they are not direct relatives of any person in any of the positions identified above.

The eligibility of each of the independent directors in relation to the criteria was checked by the Board of Directors, in compliance with the Code, at the first opportunity available. Eligibility reviews are conducted on a regular basis.

The Board of Auditors investigated the correct application of the criteria and procedures adopted by the Board for assessing the independence of its members, and produced no findings requiring reporting.

The number and authority of Independent Directors is such that they ensure that their opinion has a significant weight in decisions taken by the Issuer's Board of Directors. These directors bring their specific competencies to Board discussions and contribute to decisions being made in the Company's interest.

The Independent Directors did not hold any separate meetings during 2010, as they are also all members of the Internal Control Committee, and they could discuss various issues of interest during Committee meetings.

4.7 LEAD INDEPENDENT DIRECTOR

International *best practices* recommend against concentrating corporate powers in the hands of one person. In the case of Biesse, however, where the Chairman of the Board of Directors is also CEO, such concentration responds to the organisational needs of the Company. Accordingly, in order to comply fully with the principles of the Code, the Board of Directors created the role of *Lead Independent Director*, appointing the independent director Mr Leone Sibani to the position. The *Lead Independent Director* acts as a co-ordinator for non-executive Board members, with a view to encouraging their greater contribution to the work and operation of the Board.

The *Lead Independent Director* is specifically responsible for:

- working with the Chairman to guarantee that all directors are provided with timely and complete information;
- calling independent directors' meetings, either at his own initiative or at the request of other directors, to discuss matters of interest concerning the workings of the Board of Directors or the management of the Company.

In 2010, the *Lead Independent Director* called:

- the meetings of the Internal Control Committee;
- a meeting of the Remuneration Committee.

5. PROCESSING OF CORPORATE INFORMATION

In accordance with the Code, directors and statutory auditors are required to uphold the confidentiality of the documents they view and the information they learn in the due course of their duties, and to comply with Company procedures for the internal management and disclosure of such documents and information.

Internal regulations for the management of inside information and the establishment of an insider list

The disclosure of documents and information concerning the Company and/or Group, in particular as concerns price-sensitive information, is governed by a procedure approved by the Board of Directors on 14 February 2006. The regulations ensure the complete, correct, clear, transparent, ongoing and maximum dissemination of information concerning the Company and its subsidiaries, as well as compliance with primary and secondary sources of law.

The relevance of information for disclosure and its timely release is assessed by the CFO (in charge of administration, finance and control) with the assistance of the Investor Relations Office for the co-ordination of disclosures. The Investor Relations Office is responsible for (i) ensuring compliance with disclosure regulations; (ii) assisting the Board of Directors, other corporate boards, and the heads of departments/organizational units in complying with market disclosure requirements set forth by Consob and Borsa Italiana, and ensuring the distribution of regulations and instructions issued by market surveillance authorities and Borsa Italiana; (iii) working with the Marketing & Communications Division to ensure that the disclosure of material and inside information about the Company and the marketing of the Company's business do not overlap in any way that may be misleading; (iv) ensuring that disclosures are synchronised for all categories of investors and in all EU member states in which the Company's financial instruments have been admitted to trading, or a request for admission has been made, in regulated markets.

Internal Dealing Code of Conduct

On 27 March 2006, the Board of Directors adopted internal regulations on internal dealing that govern the statutory disclosures required from parties responsible under Article 114(7) of the Consolidated Law on Finance, and from relevant persons, as identified under the regulations, to the Company itself, Consob and the market. The regulations apply to transactions made as of 1 April 2006.

The new internal dealing regulations apply directly to the purchase, sale, subscription and trading of Biesse shares and connected financial instruments by relevant persons and their close associates. This latter category includes shareholders holding at least 10% of the Company's share capital, Biesse's directors and statutory auditors, executive-level management and managers with regular access to inside information and with the power to make decisions that could influence Biesse's performance and business outlook.

Transparency obligations apply to the transactions identified above, with an aggregate value of €5,00000 in any one year, including transactions performed by the close associates of a relevant person.

Biesse has adopted the *black-out period* provisions required under Consob Resolution No. 15786 of 27 February 2007 for STAR-listed companies, during which relevant persons and their close associates are prohibited from performing transactions on Biesse shares. Black-out periods apply as follows:

- a) starting fifteen days prior to the Board of Directors' meetings called to approve the draft financial statements, the quarterly reports and half-yearly report, until the time a press release is made announcing the resolutions adopted by the Board of Directors at the meeting;
- b) without prejudice to the foregoing, starting upon receipt of notice of listing in the "Insiders List" as per Article 115 *bis* of the Consolidated Law on Finance, until the time of disclosure of the inside information, access to which determined the person's listing.

6. BOARD COMMITTEES

On 28 April 2009, the Board of Directors set up a committee that carries out the duties required by the Code for the Internal Control Committee and the Remuneration Committee, made up of three independent directors.

The Board of Directors decided not to set up an Appointments Committee due to the small size of the Board itself and the requirements of the Articles of Association regarding candidate list voting system, which ensures the transparency of the appointment procedures and a balanced make up of the Board of Directors.

7. REMUNERATION COMMITTEE

The Board of Directors has set up a Remuneration Committee which, in compliance with the Code, currently consists of three non-executive, all independent directors:

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

The Committee is responsible for (i) submitting to the Board the proposals for remuneration of the CEOs, monitoring application of the decisions taken by the Board; (ii) periodically evaluating the criteria adopted for remuneration of those directors with strategic responsibilities, supervising their application and making general recommendations to submit to the Board.

During the financial year, the Internal Control Committee has had free access to the necessary information and company functions and held two meetings, lasting an average of forty-five minutes. All members participated in those meetings. In these meetings, which were not attended by persons outside the Committee, with minutes taken as required, the Committee evaluated the remuneration of the Board members and the CEO.

Directors must abstain from taking part in Committee meetings which include discussion of the Board remuneration proposals.

No financial resources were allocated to the Remuneration Committee since, in order to fulfil its duties, it uses the Issuer's corporate resources and facilities.

8. GROUP UPPER MANAGEMENT and DIRECTORS' COMPENSATION

In order to attract, retain and motivate Directors with specific professional qualities necessary to successfully manage Biesse and in order for the interests of Executive Directors to match the primary objective of creating value for shareholders in a medium- to long-term horizon, a significant part of the remuneration of the Executive Directors and Top Management of the Group is made up of performance-linked compensation and/or individual objectives (also known as variable incentive bonuses).

Pursuant to article 114 - bis of the Consolidated Law on Finance, the Shareholders' Meeting on 19 October 2010 approved an incentive and loyalty plan for Biesse Group top management called the "Retention Plan 2011 - 2013 of Biesse S.p.A."; this plan includes distribution of cash and free assignment of shares in the portfolio to beneficiaries contingent on reaching financial and business objectives and an individual performance assessment. To achieve this, on this date, the Shareholders' Meeting also passed resolution to specify the details of the authorization to purchase treasury shares, which was granted to the Board of Directors with shareholders' resolution on 21 January 2008 and 12 November 2009, as referenced in point 2, expressly authorising the use of treasury shares in accordance with the aforementioned resolutions in the framework of stock option plans, including structured, through free assignment of shares or incentive, loyalty and retention plans, reserved for management, employees, or collaborators of the Company or Group companies; grant the Board of Directors all the powers necessary and appropriate to implement this resolution, in conformity with applicable law, with the express ability to sub-delegate.

The Shareholders' Meeting also passed resolution to vest the Board of Directors and, on its behalf, the CEO Giovanni Barra, all powers necessary and appropriate to execute the "Retention Plan 2011 – 2013 of Biesse S.p.A." according to the related Regulation and with the ability to delegate such powers.

Subsequent to the resignation of Mr. Barra, the Board of Directors assigned management of the "Retention Plan 2011 – 2013" to the CEO Roberto Selci, as of 12 November 2010.

Remuneration of non-executive directors is not linked to the performance results achieved by the Issuer. No share-based incentives plan has been made for non-executive directors.



Indemnity of the directors in the case of resignation, dismissal or termination of the relationship following a public offering

In October 2010, the CEO Giovanni Barra submitted his resignation. In the contract signed by Mr. Barra, the Company had included an agreement as to the amount of indemnity that Mr. Barra would be paid in the event of his resignation or if his employment should be terminated. Pursuant to that agreement, in view of the activities performed and the early termination of the employment relationship, the Company has agreed to pay Mr. Barra:

- € 900.000,00 as service allowance and novation settlement;
- continued use of non-monetary benefits (i.e. “postretirement perks”) which include assignment of living quarters until 31 March 2011 and use of the company car until 31 December 2012.

As a result of the resignation, Mr. Barra forfeited his right to participate in the incentive plan based on financial instruments or issued in cash.

No other agreements have been entered into between the Issuer and the directors that provide for indemnities in the case of resignation, dismissal/termination without just cause, or if the employment relationship ceases following a public offering.

9. INTERNAL CONTROL COMMITTEE

The Board of Directors has set up an Internal Control Committee which, in compliance with the Code, currently consists of three non-executive, all independent directors:

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

These Directors have experience in accounting and finance considered appropriate by the Board at the time of their appointment.

The Committee not only assists the Board of Directors in carrying out their duties, it is also responsible for:

- a) assessing the suitability of the accounting principles used and their consistency in the drafting of the consolidated financial statements together with the manager in charge of preparing corporate accounting documents and the auditors;
- b) assessing the proposals made by the external auditors for their appointment, assess the working plan drawn up and the results shown in the report and in the comments and suggestions letter;
- c) supervising the efficacy of the accounting audit process;
- d) examining the working plan prepared by the internal control manager;
- e) reporting to the Board of Directors, at least every six months, on their activities and on the adequacy of the internal control system.

The Committee reports periodically with the *Internal Auditing* committee and the Board of Auditors.

During the financial year, the Internal Control Committee held two meetings, with minutes taken as required, lasting an average of sixty minutes. All members participated in those meetings. Two meetings are scheduled for the year 2011, still to be held.

The Chairman of the Board of Statutory Auditors or another auditor designated by him attends all the meetings of the Internal Control Committee.

As part of its responsibilities, the Internal Control Committee has access to all company information and corporate functions necessary to carry out its duties.

10. INTERNAL CONTROL SYSTEM

The Internal Control System of the Biesse Group consists of a set of rules that define behaviours, values, procedures to follow by all employees and collaborators, whose purpose is to ensure good company governance and monitor the key business risks. The hierarchy of this control system can be defined in the points below.

10.1 EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM

The reference person of the Internal Control Committee is the Chairman of the Board of Directors. He is responsible for supervising implementation and evolution of the Committee, identifying the company risks to design, create, and manage the internal control system and attempting to adapt this system to the changing operating conditions, in compliance with the regulations and prevailing law. In evaluating the main risks, the Chairman of the B.o.D. is assisted by the designated Internal Control Supervisor, which reports directly to him.

10.2 INTERNAL CONTROL SUPERVISOR

The Internal Control Supervisor is appointed by the Chairman of the B.o.D., in agreement with the Internal Control Committee. He is responsible for the *Internal Auditing* function of the Group and must have the prerequisite of independence, in compliance with the Corporate Governance Code.

According to the Code, Internal Control is not responsible for any operating area, does not hierarchically report to any manager of operating areas, has free access to all the company information and has its own appropriate financial resources. The Internal Control Supervisor is committed to providing *assurances* on the internal control system reporting the results directly to the Chairman of the Board of Directors, the Internal Control Committee, and the Statutory Auditors.

10.3 CODE OF CONDUCT

In 2010, the Biesse Group supplemented its Code of Ethics in effect since 2002 with a new Code of Conduct which is an integral part of the Internal Control System. It expresses the principles of professionalism and corporate conduct which the Group expects all directors, auditors, employees, associates, consultants, and partners to strive for. The Code of Conduct was adopted by all the Group companies in Italy and abroad. The Code came into force in March 2010 and aims to convey the importance of operating in a way that is sustainable and that can protect the interests of all stakeholders. It has been integrated in order to provide guidelines in relation to the Environment, Health and Safety, and Ethics in carrying out company business.

10.4 ORGANISATIONAL MODEL *pursuant to* Legislative Decree 231/2001

The Board of Directors approved the Organizational and Management Model (henceforward also the "Model") in 2007 in accordance with Legislative Decree 231 of 8 June 2001, which sets out the administrative responsibility of corporations; this Model is periodically reviewed and updated, pursuant to regulatory changes.

This Model is the result of a long and in depth analysis of the risks related to the legal status of Biesse. It is consistent with the principles expressed by Legislative Decree 231/01, in line with national *best practices* and the instructions of Confindustria, and is sufficient to prevent the risk that employees and associates of the Company commit the offences set forth in the aforementioned decree and in the subsequent modifications.

It represents an additional guarantee of the sense of responsibility in relationships within the Group and with external parties, offering Shareholders sufficient guarantees of correct and efficient management.

The Model is periodically updated and contains a detailed analysis of the risks of committing the offences set forth in the Legislative Decree 231/2001, with special reference to the offences relevant to the *business* of Biesse and a list of the appropriate procedures to fill any *gaps* between the areas found to be potentially at risk and the procedures already in place and operational at Biesse.

Presently, the areas identified as at risk and monitored pursuant to the regulations are:

- Offences against the public administration;
- Corporate crimes;
- *Market Abuse* crimes;
- Offences related to safety on the workplace;
- Computer offences and illicit data processing;
- Crimes of receiving stolen goods, money laundering, and use of cash, goods or other valuables of illegal source;
- Offences against the public trust;
- Crimes against industry and trade.

In 2010, in accordance with the changes made by the legislature, with the new Laws 94 of 15 July 2009, 99 of 23 July 2009, and 116 of 3 August 2009, new types of offences have been introduced and the Issuer updated the Model as a result.

An integral part of the Model is the Code of Conduct, which represents an official document that expresses the commitments and the ethical responsibilities in conducting its business and the business activities undertaken by Biesse and the other Biesse Group companies. The document also governs the rights, duties and responsibilities expressly exercised and undertaken by Biesse in relation to the parties it deals with in carrying out its business. The Code also introduces mandatory principles and rules of conduct for Biesse, for the purposes of reasonably preventing the offences set out in Legislative Decree 231 of 8 June 2001.

Furthermore, a Supervisory Board was appointed, consisting of the Independent Directors, the Biesse Legal Office Manager, and the Biesse *Internal Auditing* Office manager, with a view to:

- periodically mapping the areas at risk of offence (i.e. "sensitive activities"), in order to adapt them to the changes in the activities and/or the company structure. For said purpose, Management and employees in charge of internal control reported any situations that can expose the Company to risk of offence to the Supervisory Board;
- periodically verifying the matters set forth by the Model, especially ensuring that the procedures and controls set forth are carried out and recorded as required and ethical principles are honoured;
- periodically checking specific transactions or specific events executed, especially as part of the sensitive activities whose results are summarised in a specific report, the contents of which are illustrated in the company publications;
- ensure that the corrective actions necessary to make the Model appropriate and effective are undertaken in a timely manner;
- gather, process and save all the relevant information received in relation to the Model and update the list of the information that must be transmitted to it. To do this, the Supervisory Board has free access to all the relevant Company documentation and is constantly informed by management: on the aspects of the company activities that can expose the Company to the risk of committing one of the crimes set forth by the Decree and the relationships with consultants and partners;
- report periodically to the Chairman, the Board of Directors and the Board of Statutory Auditors in relation to implementation of the company policies for implementing the Model;
- monitor violations of the Model, including violations to the Code of Conduct.

To complete the Model, note that the Company has set up a structured and unified system of procedures and control activities (which includes bolstering the efficacy of those already existing and by implementing new ones) aimed at covering any possible risks arising from sensitive and instrumental activities for the purpose of committing the offences set forth in the aforementioned decree.

Biesse has implemented a strategy it considers effective to increasing shareholder value since it aims to ensure a complete investigation and therefore, suitable to protect shareholders' and all *stakeholders* from possible risks related to company *governance*, present and future. The strategy is built on implementing the "Integrated Compliance" application for management of regulations under Law 262/05 and Leg. Decree 231/01.

10.5 RISK MANAGEMENT AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The risk management and internal control over financial reporting of the Company is based on the "COSO Report" reference model, which can be defined as a set of rules, procedures and organizational structures that uses an appropriate risk identification, measurement, management and monitoring process, according to a *Risk Based* methodology to run a healthy, sound, correct and transparent company that meets the preset objectives.

The system aims to ensure:

- the efficiency and effectiveness of company operations;
- the reliability of economic and financial information;
- compliance with laws and regulations;
- and protection of the company wealth.

The Board of Directors is responsible for the internal control system and sets its guidelines, periodically checking the sufficiency and actual operating, including through the Internal Control Committee and finally, describes its essential elements in relation to company governance.

The Internal Control Committee approved a risk management policy, issued by the Board of Directors, according to a Risk Based methodology which includes an analysis based on the following three phases for every risk category:

- ✓ Risk Assessment to identify, describe and classify company risks;
- ✓ Risk Treatment to select and implement the measures suitable for eliminating or reducing the risk profile;
- ✓ Risk Monitoring that includes control of the effectiveness of the RM process and compliance with the policy governing the company's aptitude for risk

and the activities already performed and those still to perform are shown for each category of risk .

The controls set up can be split into the following categories:

- ✓ First level checks, operating in the individual legal entities, offices and divisions based on assignment of responsibilities, powers and mandates, separation of duties, assignment of privileges and rights of access in the IT applications;
- ✓ Second level checks that work through: issue of authorisations by individual department managers (e.g. budget, investment and/or purchase requests, signing of services contracts) or through operating supervision of the individual managers (e.g. checks of the reconciliations, analysis that data match, etc.);
- ✓ Third level checks entrusted to the internal control bodies (e.g. Internal Audit Department, Quality Management, Internal Control Committee, Supervisory Board under Legislative Decree 231/01) and external control bodies (Statutory Auditors, Independent Auditors, Certifying Bodies).

In order to create value for shareholders and viewing it essential to work toward this goal by increasing the means to protect the accuracy of information provided to shareholders, Biesse has worked to achieve efficiency and focus on a situation of compliance with respect to the matters set forth by Law 262/2005. In particular, to protect shareholders and stakeholders, Biesse began to implement procedures in 2007 to ensure the veracity, accuracy and transparency of the data by (i) a preliminary scoping effort with a view to identifying the significant classes of transactions, transactions not considered routine and the accounting estimates to include in the analysis perimeter in relation to the significant accounts in the consolidated financial statements, based on defined quality and quantity criteria (e.g. importance, inherent risks, etc.); (ii) a risk evaluation activity aimed at certifying that processes and subprocesses identified in the scoping phase are not invalidated by irregularities, errors or omissions not detected by the internal control system and, generally, by the "Corporate Governance" system; (iii) implementation of new control procedures to prevent the risk under point (ii) above; (iv) planning and execution of a cycle of tests on the entire internal control system to verify its effectiveness and set out a Remediation Plan with a view to completely achieving the objectives defined in the scoping phase.

To fully implement the ICFR model, Biesse has set out requirements regarding: i) the compliance plan that dictates the rules of formalizations, maintenance and management of the model; ii) the collation procedure, whose purpose is to ensure that the Chairman of the B.o.D. and the Manager in charge of preparing corporate accounting documents receive the internal affidavit of the process owners responsible within the company for applying the model

The ICFR model and compliance plan are periodically submitted for approval by the Group *Internal Audit* office and any changes must be approved by the Internal Control Committee.

To achieve the objectives of efficiency and integration of the internal controls in 2008, an information system was introduced, henceforward named *Integrated Audit Tool*, that can manage and provide support to integrated *compliance*.

At present, this application supports the Internal Auditing office, Internal Control Committee, and the Supervisory Board in the risk analysis activities and verification of the controls, ensuring the ability to track information and activities.

10.6 INDEPENDENT AUDITORS

The audit assignment to Deloitte & Touche S.p.A. ended due to contract expiration. The Biesse shareholders' meeting held on 28 April 2010 passed resolution to offer the assignment to KPMG S.p.A. for FY 2010 up to 2018, concurrently setting its compensation and the criteria for adjustment of these fees throughout the contract term.

10.7 FINANCIAL REPORTING OFFICER

On 14 May 2007, in accordance with the Articles of Association - and in compliance with Law 262 of 28 December 2005 - the Board of Directors, on the proposal of the Chairman and after soliciting the opinion of the Board of Statutory Auditors, unanimously appointed the Finance and Control General Manager, Stefano Porcellini, the Financial Reporting Officer. The Board found that Mr. Porcellini has all the requirements of professionalism and integrity required by the law in force to perform these duties.

In light of these changes to the Articles of Association, Mr. Porcellini was considered qualified to cover the role of Financial Reporting Officer being an expert in administration, finance, and control and having the requirements of professionalism and integrity required for directors.

The Manager has been granted all the necessary powers under article 154 bis of Legislative Decree 58 of 24 February 1998, as introduced by article 14 (1), Law 262 which include but are not limited to:

- a) the power to introduce administrative and accounting procedures in the parent company and all the Italian and foreign subsidiaries;
- b) the power to dismiss and hire employees to perform specific activities, setting the compensation within the framework of the group policy;
- c) the power to grant and revoke assignments to Italian and foreign professionals to carry out specific assignments, setting their term and compensation;
- d) the power to make direct purchases of or lease software and assets necessary to carry out the budget and related procedures;
- e) any other necessary power, including related expenses, with a view to the correct execution of the assignment granted.

11. INTERESTS OF DIRECTORS AND RELATED-PARTY TRANSACTIONS

According to the CONSOB Resolution No. 17221 adopted on 12 March 2010, as amended by Resolution No. 17389 of 23 June 2010 ("CONSOB Regulation") as well as article 9, section 1 of the Code of Conduct of

Companies Listed by Borsa Italiana S.p.A. ("Code of Conduct"), the Board of Directors adopted THE PROCEDURE TO REGULATE RELATED-PARTY TRANSACTIONS on 12 November 2010, subject to the approval of the Internal Control Committee. The procedure regulates related-party transactions with a view to ensuring substantial and procedural transparency and correctness for itself and its subsidiaries in transactions executed by the Company with related parties.

The Regulation aims to identify the principles and procedures which Biesse uses in order to ensure the substantial and procedural transparency and correctness of Related-Party transactions (as defined below), executed by the Company, directly or through its subsidiaries.

For the purpose of the Regulation, Related-Party transactions ("RPT") may be defined as any transfer of services, resources, or obligations between Related Parties, regardless of whether or not a consideration has been agreed, which may include:

- merger or spin off transactions in the narrow sense and not proportional, provided these are executed with Related Parties;
- every decision related to assignment of compensation and economic benefits, in any form, to members of the Board of Directors and Statutory Auditors and to executives with strategic responsibilities (except for matters set forth under the CONSOB Regulation and save for the exemptions under article 5).

The bodies involved in examination and approval of the transactions and bodies which have supervisory duties on enforcement of the Regulation, each for their own sphere of responsibility, for the purpose of identifying the RPT in accordance with the Regulation, are required to give preference to and consider the substance of the relationship and not only its legal form. In view of the reports and comments made by other company bodies, the Board of Directors of the Company reviews the effectiveness of the Regulation at least every three years and the need/advantages of making changes to it.

As the Company is a smaller size listed company and pursuant to the recent changes to the Articles of Association, Biesse is taking advantage of the ability to apply the procedural system allowed for Smaller RPT, in accordance with article 10 of the CONSOB Regulation.

This Regulation includes the establishment of a Committee for vetting Related-Party transactions which is shared by the Company's Internal Control Committee and uses the prerequisites set forth by applicable law and regulations.

The Board of Directors has found operating solutions that can facilitate the identification and adequate management of the situations in which a director holds an interest on his own behalf or on behalf of third parties.

12. APPOINTMENT OF STATUTORY AUDITORS

The Board of Statutory Auditors supervises compliance with the law and the Articles of Association and provides control of operations, while it is not responsible for accounting controls which are the responsibility of independent auditors designated by the Shareholders' Meeting among those registered in the CONSOB roll.

The Articles of Association sets forth that the Board of Statutory Auditors is made up of three standing auditors and two alternate auditors and that nomination is based on the candidate lists filed by the Shareholders that represent at least 2% (two percent) of the voting stock in the Shareholders' Meeting or, based on the recent changes to the Articles of Association, another minimum percentage set forth by Consob Regulation. No Shareholder, nor the Shareholders in the same group, may file or vote for, either severally or jointly or through nominees or trustees, more than one candidate list. If this rule is broken, the vote of the Shareholder in

question will not be taken into account for any of the candidate lists filed. Each candidate may only be on one list. Failure to comply will mean ineligibility.

A statutory auditor is elected as follows: two standing auditors and one alternate auditor are selected, in the consecutive order in which they are listed, from the candidate list that obtained the highest number of votes in the Shareholders' Meeting; the names of one standing and another alternate auditor are selected from the candidate list with the second highest number of shareholder votes, according to the sequential order in which they appear in the list. The standing auditor will assume the role of Chairman. If there is a tie among two or more candidate lists, the Statutory Auditors appointed will be those most senior in age.

Thanks to the recent changes to the Articles of Association, the lists must be filed no later than the twenty-fifth day prior to the date of the Shareholders' Meeting and must be posted, as required by law and by the Consob Regulations, at least twenty-one days prior to the meeting. Candidatures must be accompanied by a professional curriculum vitae and the statements whereby each candidate accepts the candidature and attests, under personal responsibility, the absence of ineligibility and incompatibility, as well as the existence of the requirements prescribed by law and by the Articles of Association for these roles.

13. STATUTORY AUDITORS

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting on 28 April 2009 and remains in office until approval of the financial year ending 31 December 2011. The members of the Board of Statutory Auditors were all candidates from a single list submitted by the shareholder Bi.Fin. S.r.l., which was voted by shareholders representing 16,015,000 shares, equal to 58.464% of the share capital. No other candidate lists were filed.

The Board of Statutory Auditors held 11 meetings in 2010, each lasting an average of two hours. The Board has another 7 meetings scheduled in 2011, two of which have been held.

For more information on the composition of the Board and the equity investment of each member, see the summary tables. At the end of FY 2010, the Board of Statutory Auditors was made up as follows:

Giovanni Ciurlo (Chairman), born in Genoa on 14 August 1960, graduated with honours in economics in 1983, is enrolled with the Board of Chartered Accountants of Genoa since 1985. Between 1983 and 1986, he worked as an officer of IMI - Istituto Mobiliare in Genoa and Rome; between 1986 and 1990, Mr. Ciurlo was the administration and finance officer at Diffel S.p.A.. Since 1994, he has been a partner at Studio Tributario Societario, a professional association headquartered in Milan, Rome, Genoa and Turin and where some forty professionals currently work.

Main offices: Banco di San Giorgio Spa (Acting Auditor), AEB Spa (Chairman of the Board of Statutory Auditors), Stroili Oro Spa (Acting Auditor), Salmoiraghi & Viganò Spa (Director), Holdco Afrodite Srl (Acting Auditor), Italmatch Chemicals Spa (Acting Auditor), Vistasì Spa (Director)

Adriano Franzoni (Acting Auditor), born in Pesaro on 18 November 1946, was enrolled with the Board of Chartered Accountants – Section A – under no. 32; he had been registered with the Board of Accountants of Pesaro-Urbino since 1976. He was registered with the Board of Official Accounting Auditors with decree published in the Official Gazette No. 7 of 9 January 1985 under no. Z0470. He had been appointed Director numerous times to the CNPR for his area of membership, and in this role, he had taken part in many important events in the life of the CNPR as member of Committees and work groups as coordinator of activities in the Marche region.

Main offices: I.F.I. S.r.l. (Chairman of the Board of Statutory Auditors), DI ZIO Costruzioni Macchine S.p.A. (Standing Auditor), Metalfond S.r.l. (Chairman of the Board of Statutory Auditors), Sorbini S.r.l. (Chairman

of the Board of Statutory Auditors), Alluflon S.p.A. (Standing Auditor), VIET S.p.A. (Standing Auditor), Salfina S.r.l. (Standing Auditor).

Claudio Sanchioni (Acting Auditor), born in San Costanzo (PS) on 9 September 1958, graduated from the University of Ancona with a degree in Business and Economics on 21 February 1984 and enrolled with the Board of Chartered Accountants of Pesaro and Urbino on 2 October 1984 under no. 67, which then became no. 103 A as of 1 January 2008. Mr. Sanchioni is also enrolled in the Board of Official Accounting Auditors with the Ministerial Decree 12/04/1995. He is a court-appointed expert with the Court of Pesaro, Bankruptcy Court, Chairman of the Board of Statutory Auditors in a number of unlisted companies, and Councillor of the Board of Chartered Accountants of Pesaro-Urbino and Chairman of the Protection Committee.

At 31 December 2010, Mr. Sanchioni owned 200 shares of the Issuer.

Daniela Gabucci (Alternate Auditor), born in Pesaro (PU) on 23 January 1953, graduated with a diploma in Accounting from the Istituto Tecnico Bramante in Pesaro, is enrolled in the Board of Official Accounting Auditors with Decree by the Ministry of Grace and Justice, on 12 April 1995, published in the Official Gazette no. 31 bis on 21 April 1995. Since 1980, Ms Gabucci has been a standing auditor and the Chairwoman of the Boards of Statutory Auditors in a number of unlisted companies. She is a partner of the Studio Marchionni in Pesaro.

Cristina Amadori (Alternate Auditor), born in Pesaro (PU) on 27 March 1967, graduated with a diploma from the Istituto Tecnico Commerciale Bramante in Pesaro, is enrolled in the Board of Accountants of Pesaro e Urbino since 26 March 1994 under no. 162, now known as the Board of Chartered Accountants under no. 260A. She is registered in the Board of Official Accounting Auditors with Ministerial Decree issued on 8 June 1999 under no. 71471. She is a member of the Boards of Statutory Auditors in a number of unlisted companies and at 31 December 2010 owns no shares of the Issuer.

After the end of the financial year, pursuant to the premature death of the Acting Auditor, Mr. Franzoni on 8 January 2011 and the resignation submitted on that date by the Alternate Auditor, Ms. Gabucci, Ms. Amadori was elevated to Acting Auditor under the terms of the law. She will remain in this office until the next shareholders' meeting, which will be convened to appoint new members of the Board of Statutory Auditors.

The Board of Statutory Auditors has made its annual verification that each of its members has maintained the prerequisites of independence required by prevailing law and by the Code, with reference to the independence of the Directors.

In performing its duties, the Board has supervised the independence of the external auditors, verifying both the compliance with legal requirements and the nature and entity of the services other than account auditing provided to the Issuer and its subsidiaries by the independent auditors.

In carrying out its duties, the Board of Statutory Auditors works with the *Internal Audit* office and with the Internal Control Committee.

14. SHAREHOLDER RELATIONS

Financial communication plays an essential role at Biesse in the value creation process for the Group: the Issuer has adopted a strategy to promote continuous and correct flows of information between the financial community, the market and the Issuer. Biesse has always actively worked to establish continuous dialogue with institutional investors, shareholders and the market, in compliance with the procedures adopted for public disclosure of inside documents and information. For this reason, the specific company office of "*Investor Relations*" was established to work with the Board of Directors with the aim of ensuring publication of

complete and timely disclosure through press releases, meetings with the financial community and periodic updates of the company web site (www.biesse.com).

In 2010, Biesse participated in all the events organised by Borsa Italiana (STAR event in Milan, New York, London and Paris) and independently created a number of opportunities for meeting and exchange with the Italian and international financial community.

To foster financial communication, the Board of Directors of Biesse works to provide easy and timely access to the information regarding the Issuer which is relevant for its shareholders to knowledgeably exercise their rights. To achieve this, the Company felt it would be appropriate to set up a dedicated space on its web site with economic and financial information (financial statements, quarterly and interim reports) and data and documents of interest to shareholders, including the Code of Conduct and the Organizational Model (http://www.biesse.com/investorrelations/corporategovernance_IT.asp). The documentation will remain available on the site for at least five years.

15. SHAREHOLDERS' MEETINGS

Shareholders' Meetings are legally constituted when all shareholders are represented and its resolutions, taken in compliance with the law and the Articles of Association, are binding for all shareholders, even if absent or in disagreement. Shareholders' Meetings may be called in Italy at the company headquarters or elsewhere. As per the Changes to the Articles of Association, the Shareholders' Meeting is called by the Board of Directors which issues the notice in terms and in accordance with the methods set forth by applicable law.

Ordinary and extraordinary shareholders' meetings and shareholder decisions are valid where the quorum, voting majorities and other statutory requirements contemplated by laws in force are satisfied.

Since 2001, the Company has had a set of shareholders' meeting rules that govern the orderly and practical running of the ordinary and extraordinary meetings, ensuring each shareholder the ability to participate in the discussion of items on the agenda. All those who participate as representatives of shareholdings are entitled to speak on any of the issues set forth for discussion. Shareholders who wish to speak must ask the Chairman for the floor, submitting a written request including indication of the topic of the question. This is done after the chairman has read aloud the items on the agenda and until he has declared the discussion of the issue closed.

The rules of the Shareholders' Meeting can be viewed in the dedicated section of the web site (www.biesse.com).

In FY 2010, two Shareholders' Meetings were held and in both cases, the Board reported to shareholders on its activity, planned and scheduled, and worked to ensure that shareholders had adequate information regarding the necessary elements so that they could make fully-informed decisions within the framework of a Shareholders' Meeting.

16. CHANGES AFTER THE CLOSE OF THE FINANCIAL PERIOD

Beyond the changes already reported in this report, with reference to the composition of the Board of Directors and Board of Statutory Auditors, there were no other changes taking place subsequent to 31 December 2010.

17. SUMMARY TABLES

Below is summary information on the make up of the Board of Directors and the Board of Statutory Auditors.

Included with this report is a list of any offices held by each director of the Issuer in companies listed on regulated markets, including foreign markets, in financial, banking, insurance or other companies of significant size.

STRUCTURE OF THE BOARD OF DIRECTORS AND THE COMMITTEES at 31 December 2010

Board of Directors											Internal Control Committee		Remuneration Committee		Appointments Committee, if any		Executive Committee, if any		Other committees, if any	
Office	Members	In office from	In office until	List (M/m) *	Exec.	Non-exec.:	Indep. pursuant to the Code	Indep. pursuant to Cons. Law on Finance	(%) **	No. other offices ***	****	**	****	**	****	**	****	**	****	**
Chairman	Selci Roberto	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
(If any) AD	Selci Giancarlo	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
Director	Parpajola Alessandra	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
Director	Stefano Porcellini	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
LID	Sibani Leone	28.4.09	Approval of the financial statements, year end 31/12/11	M		x	x	x	100	08	x	100	x	100						
Director	Garattoni Giampaolo	28.4.09	Approval of the financial statements, year end 31/12/11	M		x	x	x	100	04	x	100	x	100						
Director	Giordano Salvatore	28.4.09	Approval of the financial statements, year end 31/12/11	M		x	x	x	100	02	x	100	x	100						
-----DIRECTORS LEAVING OFFICE DURING THE YEAR -----																				
(If any) AD	Barra Giovanni	12.11.09	Ended on 22/10/10	M	x				71.42											
Note the quorum required for filing the lists at the last appointment: 2.5%																				
No. of meetings held during the financial year in question:						B.o.D.: 7		ICC 2		RC: 2		AC:		EC:		Other Committee:				

NOTES:

- * This column indicates M/m depending on whether the member was voted from the majority list (M) or a minority list (m).
- ** This column indicates the directors' attendance at meetings of the B.o.D. and the committees (number of attendances / number of meetings held during the period of office).
- *** This column indicates the number of offices of director or auditor held by the individual in other companies listed on regulated markets, Italian or foreign, in financial, banking, insurance or other companies of significant size.
- **** This column indicates with an "X" if the member of the B.o.D. is also a member of the committee.

STRUCTURE OF THE BOARD OF STATUTORY AUDITORS at 31 December 2010

Board of Statutory Auditors							
Office	Members	In office from	In office until	List (M/m)*	Independence pursuant to the Code	** (%)	Number of other offices
Chairman	Ciurlo Giovanni	28.4.09	Approval of the financial statements, year end 31/12/11	M		100	7
Standing Auditor	Franzoni Adriano	28.4.09	Approval of the financial statements, year end 31/12/11	M		72.70	
Standing Auditor	Sanchioni Claudio	28.4.09	Approval of the financial statements, year end 31/12/11	M		100	
Alternate Auditor	Amadori Cristina	28.4.09	Approval of the financial statements, year end 31/12/11	M			
Alternate Auditor	Gabucci Daniela	28.4.09	Approval of the financial statements, year end 31/12/11	M			
-----AUDITORS LEAVING OFFICE DURING THE YEAR -----							
	-						
Note the quorum required for filing the lists at the last appointment: 2%							
No. of meetings held during the financial year in question: 11							

NOTES:

* This column indicates M/m depending on whether the member was elected from the majority list (M) or a minority list (m).

** This column indicates the auditors' attendance at meetings of the Board of Statutory Auditors (number of attendances / number of meetings held during the period of office).

*** This column indicates the number of director or auditor offices held by the individual, which are relevant for the purposes of article 148-bis of the Consolidated Law on Finance. The complete list of the offices is attached, in accordance with article 144 (15) of the Consob Issuers' Regulation to the report on the supervisory activities, drawn up by the auditors in accordance with article 153 (1) of the Consolidated Law on Finance.