

# Corporate Governance and Ownership structure

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

(2011 Financial Year)



Issuer: **BIESSE S.p.A.**  
Web site: [www.biesse.com](http://www.biesse.com)

Financial year to which the Report refers: 1 January 2011 – 31 December 2011  
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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, included subsequent amendments and additions thereto.

**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.

**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.

**2011-2012 Retention Plan:** the 2011-2012 Retention Plan approved by the Shareholders' Meeting of 19 October 2010 available on the company website

**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 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 16 branch offices located in markets considered as 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. OWNERSHIP INFORMATION (at 15/03/2012)

### 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. The Company has not approved capital increases to service share-based incentive plans.

### 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%

### 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

Without prejudice to the rights of beneficiaries of the 2011-2013 Retention Plan concerning the allocation of treasury shares should any of the prerequisites stated therein occur, the Issuer has not adopted any employee share ownership system.

### 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 and provisions of the Articles of Association concerning take-over bids

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.

The Articles of Association of the Company do not provide for waivers of the provisions of Article 104, paragraphs 1 and 2 of the Consolidated Law on Finance or application of the neutralisation rules provided by Article 104*bis*, paragraphs 2 and 3, of the Consolidated Law on Finance.

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 31/12/2011, 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*, paragraph 1, letter i) and letter l) are illustrated, respectively, in the Remuneration Report published pursuant to Article 123*ter* of the Consolidated Law on Finance and in the section of this Report dedicated to the appointment and replacement of directors (Section 4.1).

### **3. COMPLIANCE**

The Issuer has adhered to the "Corporate Governance Code for Listed Companies". The Code can be accessed on the Borsa Italiana website ([www.borsaitaliana.it](http://www.borsaitaliana.it)).

In compliance with Article 123-ter of Legislative Decree 58/1998 ("Consolidated Law on Finance") and Article 6 of the Corporate Governance Code, also taking into consideration that specified in the Recommendations of the European Commission no. 2004/913/EC, 2005/162/EC and 2009/385/EC, the Company has adopted a General Remuneration Policy (which will be covered in point 8 below).

The company, with a view to protecting its values and to overall *compliance* has decided to adopt an Antitrust Code (which will be covered in point 5 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.
- General remuneration policy
- Antitrust Code

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, and the General policy on remuneration) are available *on-line* (in Italian and English versions) at [www.biesse.com](http://www.biesse.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.

Directors are appointed through the "voting list" mechanism: the Company 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.

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.

There are no specific mechanisms to ensure election of the minimum number of independent directors required by Article 147-ter, paragraph 4, of the Consolidated Law on Finance, nor do the Articles of Association provide for requisites of independence for directors other than those required therein.

## 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 Board of Directors in office as at 31 December 2011 consists of eight members whose term of office expires with approval of the financial statements as at 31 December 2011 (Biesse Shareholders' Meeting scheduled in first call for 27 April 2012): 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. Following the resignation of the previous CEO in 2010, on 18 January 2011 the Board of Directors coopted Giorgio Pitzurra as a new member of the Board, with the approval of the Board of Statutory Auditors, vested with the specific powers of CEO. On 28 April 2011 the Shareholders' Meeting validly resolved to confirm the decision.

In particular, the Board of Directors comprises, as at 31 December 2011, five executive directors:

- Roberto Selci, Chairman and Chief Executive Officer;
- Giancarlo Selci, CEO;
- Giorgio Pitzurra, Chief Executive Officer;

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

- Alessandra Parpajola, Director;
- Stefano Porcellini, Director.

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.

Giorgio Pitzurra, born in Domodossola (VB) 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., 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 31/12/2011, Mr. Sibani owned 6,000 shares of the Issuer.

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

At 31/12/2011, Mr. Garattoni owned 40,000 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 organisation in which the positions are held and the role of Director versus these organisations (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 organisations 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 organisational 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 organisational 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 organisational and administrative structures and accounting systems of the strategic Company's subsidiaries, as outlined by the authorised bodies, with particular focus placed on their internal control systems and the management of conflicts of interest. The company selection method takes place via application of a *compliance program* aimed at determining the importance and significance of individual subsidiaries and processes to be subjected to internal control. The various activities undertaken during execution of verifications are fully described in paragraph 10.5.

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 authorised 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 2011, the Board of Directors held six meetings, each lasting three hours on average. For the financial year ending 31 December 2012, the Board of Directors has scheduled five meetings, one of which has already been held on 10 February 2012 for approval of the three year plan 2012-2014.

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.

During the year, an assessment of the size, composition and functioning of the Board of Directors and committees was not carried out in view of the impending expiry of the Board itself.

The Shareholders' Meeting has not authorised in advance waivers to the prohibition of competition pursuant to art. 2390 of the Civil Code.

#### 4.4 AUTHORISED BODIES

##### Chairman of the Board of Directors

The Chairman of the Board of Directors, Roberto Selci, due to the size of the company and operations of the same, as well as the many years of experience acquired in managing the Group, with resolution of the Board of Directors adopted on 28 April 2009, 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.

By resolution of the Board adopted on 18 January 2011, the CEO Giorgio Pitzurra has the following powers and 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 all 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 2011, 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 2011, the *Lead Independent Director* called:

- the meetings of the Internal Control Committee;
- the meeting of the Remuneration Committee;
- the meetings of the Related Parties 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/organisational 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 segment 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.

#### **Code of conduct regarding *Antitrust***

The Company, at the Board of Directors meeting on 11 November 2011, approved the adoption of an "Antitrust Code" which provides employees with the basic rules of conduct for reducing the risk of engaging in anti-competitive conduct. This code will coordinate with the Group Code of Conduct which already in paragraph 5.1.13 provides as a general rule the prohibition of engaging in anti-competitive conduct.

#### **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, Chairman;
- Giampaolo Garattoni, Independent Director;
- Salvatore Giordano, Independent Director.

The Board of Directors has acknowledged on appointment of the members of the Remuneration Committee adequate knowledge and experience in accounting and financial matters.

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 Remuneration Committee had free access to the necessary information and company functions and held a meeting on 28 October 2011, with minutes taken as required, lasting sixty minutes. All members participated in those meetings. During the aforementioned meeting, attended by the Chairman of the Board of Statutory Auditors, corporate human resources, personnel administration and legal affairs managers, as well as external consultants not in a position of conflict, the Committee approved the company's Remuneration Policy and recommended approval by the Board of Directors.

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. REMUNERATION OF GROUP DIRECTORS and TOP MANAGEMENT**

During the year the Company - in compliance with Legislative Decree no. 259 of 30 December 2010 (which transposed the recommendations of the EU Commission nos. 2004/913/EC and 2009/385/EC on transparency of the remuneration of directors and executives of listed companies), followed on 10 October 2011 by the issue by Consob of a consultation document on proposed changes to the Issuer Regulations designed to implement the new provisions on remuneration - adopted, with the prior approval of the remuneration committee and in agreement with the Board of Statutory Auditors, a Remuneration Policy (hereinafter "Policy"), passed with a resolution of the Board of Directors on 11 November 2011.

The Policy establishes guidelines and principles for the definition of remuneration of key management of Biesse and the Group designed to attract, retain and motivate those with the professional skills needed to successfully manage the Company and the Group and ensure that the interests of key personnel are aligned with pursuit of the objective of creating sustainable value for shareholders in the medium to long term.

The Policy outlines, in particular, the criteria and procedures to be followed for determining the remuneration of the following key figures identified as:

- (a) Biesse directors and, within the Board of Directors of the Company, executive, non-executive and independent directors;

- (b) Group managers with strategic responsibilities, by which is meant managers, as identified by the Board of Directors of the Company, who hold the power or the responsibility for planning and controlling Group activities or the power to take decisions which may affect the evolution or future prospects of the same.

It should be noted that, even prior the adoption of the Policy and already with a view to the provisions of art. 6 of the Corporate Governance Code, the Company, 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 the medium to long term, introduced mechanisms which provide for a significant part of the remuneration of Executive Directors and Top Management of the Group to be made up of performance-linked compensation and/or individual objectives (also known as variable incentive bonuses).

Furthermore, the Shareholders Meeting of the Company held on 19 October 2010 approved, pursuant to and by effect of art. 114-bis of the Consolidated Law on Finance, the 2011-2013 Retention Plan; 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 authorisation 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.

Said Shareholders' Meeting also resolved to confer on the Board of Directors and, on behalf of the same, on the Chief Executive Officer, all powers necessary and appropriate to implement the 2011-2013 Retention Plan in accordance with that provided for in the corresponding Regulation.

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.

For further information on the Biesse remuneration policy, please refer to the corresponding Report pursuant to art. 123<sup>ter</sup> of the Consolidated Law on Finance, which will be published as provided by law.



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

No other agreements have been entered into between the Issuer and the directors that provide for indemnities other than those set forth by laws in force 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, Chairman;
- 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) expressing, at the request of executive directors, opinions on specific issues regarding the identification of company risks as well as the design, implementation and management of internal control systems;
- c) examining the working plan prepared by the internal control manager;
- d) evaluating the results presented in the auditors' report and in any recommendation letter;
- 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 year, the Internal Control Committee held 2 meetings, duly recorded, with average duration of sixty minutes. The meetings were attended by members of the Committee with the exception of Lawyer Salvatore Giordano, who always justified his absence. Two meetings are scheduled for the year 2012, 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.

During 2011 the Board of Directors did not consider it necessary to specifically evaluate the adequacy, efficiency and effectiveness of the control system in consideration of the verifications carried out in this regard by the Internal Control Committee.

The guidelines of the internal control system have been defined by the Board of Directors in order that the main risks relating to the Issuer and its subsidiary are correctly identified and adequately measured, managed and monitored, also determining compatibility criteria of such risks with sound and proper business management.

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. The Supervisor was appointed on 14 February 2008 at the proposal of the Chairman of the Board of Directors, who also proposed the remuneration of the same.

### 10.2 INTERNAL CONTROL SUPERVISOR

The Internal Control Supervisor is appointed by the Chairman of the Board of Directors, in agreement with the Internal Control Committee; he was identified with the head of Group Internal Auditing - having the requirements 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 has direct access to all information useful to perform his/her mandate and 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. His remuneration was defined in line with corporate policies by the Board at the proposal of its Chairman. The financial resources available to the Internal Control Supervisor in 2011 amounted to Euro 80,000 (eighty thousand/00) and the latter has mostly engaged in the same period in financial *audit activities* pursuant to Law 262/05 to verify the correct application of Group accounting procedures (ICFR Model) in the preparation of financial reports. The following branch offices were subjected to said *financial audit*: Biesse Group Australia Pty Ltd., Biesse Manufacturing Co Pvt Ltd, Biesse France, Biesse Usa, Biesse Canada, HSD Usa Inc. and HSD Deutschland.GmbH.

### 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. Said Code, which came into force in March 2010, has the purpose of highlighting the importance of operating in a sustainable manner, able to guarantee the interests of all stakeholders; it has been supplemented in order to also provide guidelines concerning the Environment, Health and Safety and Ethics in the execution of business activities.

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

The Board of Directors approved the Organisational 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 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;
- Environmental crimes.

In 2011, the Company updated the Model according to Directives 2008/99/EC, 2009/123/EC and 2005/35/EC referred to in Article 25 - undecies of the Decree (environmental offences).

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 and Insurance Affairs 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.

The Model, as well as the Code of Conduct, are available on the company website.

#### 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 organisational 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 (Board of 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 formalisation, 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 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.

## 10.8 APPOINTMENT COMMITTEE

The Issuer has decided not to appoint an Appointment Committee for appointment of corporate officers in consideration of the dimensions and organisation of the Group and in the light of the list voting mechanism provided for by the Articles of Association for the appointment of directors and auditors.

## 11. INTERESTS OF DIRECTORS AND RELATED-PARTY TRANSACTIONS

According to the Regulation adopted by Consob with resolution no. 17221 of 12 March 2010 as amended by Resolution no. 17389 of 23 June 2010 (the "CONSOB Regulation"), the Board of Directors of the Company, on 12 November 2010, adopted , with the prior approval of the Internal Control Committee, the procedure for regulation of transactions with related parties which regulates related party transactions with the aim of ensuring, for itself and its subsidiaries, transparency and substantial and procedural correctness of related party transactions entered into by the Company

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, Biese 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 consists of the three independent directors and uses the prerequisites set forth by applicable law and regulations. During the financial year, the Committee held three meetings, with minutes taken as required, lasting an average of forty-five minutes. All members participated in those meetings. For the year 2012 one meeting is scheduled, yet to be convened.

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 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.

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.

In case of replacement or expiry of the term of a statutory auditor, the substitute from the same list as the terminated or expired auditor takes his place. Should this not be possible, the Shareholders' Meeting shall be responsible, with the legal majority, subject to that provided by law on the appointment of statutory auditors representing the majority.

### **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 statements for the year ending 31 December 2011 (Biesse Shareholders' Meeting scheduled for first call on 27 April 2012). The members of the Board of Statutory Auditors were all candidates from the single list presented by Bi.Fin. S.r.l. which was voted by shareholders representing 16,015,000 shares, equal to 58.464% of share capital. No other candidate lists were filed.

The Board of Statutory Auditors held 8 meetings in 2011, each lasting an average of two hours. The Board has another 8 meetings scheduled in 2012, one of which has 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 2011, 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, 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.

As at 31 December 2011 he does not possess shares of the Issuer

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)

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. 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 31/12/2011, Mr. Sanchioni owned 200 shares of the Issuer.

Adriano Franzoni (Acting Auditor until 08.01.11), born in Pesaro on 18 November 1946 and prematurely deceased on 08.01.2011, 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.

Riccardo Pierpaoli (Acting Auditor until 28.04.2011), born in Pesaro (PU) on 04 January 1967, with a degree in Business Economics, certified for the profession of Accountant and Auditor and enrolled in the Register of Auditors under no. 72145 with provision 26/05/1999 published in the Official Gazette, supplement 45- IV Special Series – dated 08/06/1999. He is a court-appointed expert at the Court of Pesaro, Bankruptcy Receiver at the Court of Pesaro and Chairman of the Board of Statutory Auditors in a number of unlisted companies. He is a partner of the Studio Commerciale Associato Polidori & Pierpaoli specialising in corporate, contractual and fiscal issues.

As at 31/12/2011 he does not possess shares of the Issuer

Cristina Amadori (Standing Auditor till 28 April 2011, then 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 2011 owns no shares of the Issuer.

Silvia Cecchini (Alternate Auditor since 28.04.2011), born in Petriano (PU) on 28 March 1960, with a 1st class honours degree in Business Economics from the University of Ancona 1985, enrolled in the Order of Chartered Accountants of the Province of Pesaro-Urbino since 1985, auditor, technical consultant at the court of Pesaro and Urbino, Bankruptcy Receiver at the Court of Pesaro and Urbino and technical consultant at the public prosecutors office of Urbino. She has an on-going cooperation with the Faculty of Business Economics of Urbino. She is a member of the Boards of Statutory Auditors in a number of unlisted companies and at 31 December 2011 owns no shares of the Issuer.

Daniela Gabucci (Alternate Auditor until 08.01.2011 at which time she will resign), born in Pesaro (PU) on 23.1.1953, graduated with a diploma in Accounting from the Istituto Tecnico Bramante in Pesaro, enrolled in the Board of Official Accounting Auditors with Decree of the Ministry of Justice dated 12 April 1995, published in the Official Gazette no. 31 bis on 21 April 1995. Since 1980, she has been an acting auditor and Chairwoman of the Boards of Statutory Auditors in a number of unlisted companies. She is a partner of the Studio Marchionni in Pesaro.

Following the premature death of Acting Auditor, Mr. Franzoni, on 8 January 2011 and the resignation submitted on the same date by the Alternate Auditor, Ms. Gabucci, Ms. Amadori was elevated to Acting Auditor under the terms of the law, expiring with the Shareholders' Meeting on 28.04.11. At the Shareholders' Meeting, in order to redefine the Board, present the nominations of Riccardo Pierpaoli as Acting Auditor, Cristina Amadori - formerly Acting Auditor of the Company - as Alternate Auditor and Silvia Cecchini as Alternate Auditor, the Shareholders' Meeting approved the new Board as follows: Giovanni Ciurlo – Chairman, Claudio Sanchioni – Standing Auditor, Riccardo Pierpaoli – Standing Auditor, Cristina Amadori – Alternate Auditor, Silvia Cecchini – Alternate Auditor; all of whom will remain in office until approval of the financial statements as at 31 December 2011 (Biesse Shareholders' Meeting scheduled in first call for 27 April 2012).

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, according to all criteria provided herein, with reference to the independence of the Directors.

Statutory auditors with personal or third party conflict of interest in a resolution shall promptly and fully inform the Chairman of the Board and the other members.

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. To do this, Biesse instituted the role of "*Investor Relations Officer*" who works with the Board of Directors to ensure systematic disclosure of comprehensive and timely information in press releases, meetings with the financial community, and periodic updates with the company web site ([www.biesse.com](http://www.biesse.com)).

In 2011, Biesse participated in all the events organised by Borsa Italiana (STAR event in Milan and London) 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 Organisational Model (<http://www.biesse.com/it/corporate/investor-relations>). 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. The Shareholders' Meeting is called by the Board of Directors by issuing a notice to be published according to the deadlines and procedures provided for by applicable legislation.

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 Shareholders' Meeting may be held with a single call.

Voting by mail or telecommunications is not provided for. Participation in the Shareholders' Meeting in video conference or conference call is not provided for.

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](http://www.biesse.com)).

In FY 2011, one Shareholders' Meeting was held and in that case, the Board reported to shareholders on its activity, planned and scheduled, and endeavoured 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.

During 2011, there were no significant changes in capitalisation or corporate structure such as to suggest to the Board to propose amendments to the Articles of Association regarding the percentages required for exercise of shares and prerogatives in defence of minorities.

## **16. CHANGES AFTER THE CLOSE OF THE FINANCIAL PERIOD**

There were no other changes taking place subsequent to 31/12/2011.

## **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 2011**

Board of Directors											Internal Control Committee (CCI)		Remuneration Committee (CR)		Appointments Committee, if any		Executive Committee, if any		Related Parties Committee (CPC)	
Office	Members	In office from	In office until	List (M/m) *	Exec.	Non-exec.:	Indep. pursuant to the Code	Indep. pursuant to Consolidated Law on Finance	(%) **	No. other offices ***	****	**	****	**	****	**	****	**	****	**
<b>Chairman</b>	Selci Roberto	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
<b>CEO</b>	Pizzurra Giorgio	18.1.11	Approval of the financial statements, year end 31/12/11	M	x				100											
<b>(If any) AD</b>	Selci Giancarlo	28/04/09	Approval of the financial statements, year end 31/12/11	M	x				66.66											
<b>Director</b>	Parpajola Alessandra	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
<b>Director</b>	Stefano Porcellini	28.4.09	Approval of the financial statements, year end 31/12/11	M	x				100											
<b>LID</b>	Sibani Leone	28/04/09	Approval of the financial statements, year end 31/12/11	M		x	x	x	100	07	x	100	x	100					x	100
<b>Director</b>	Garattoni Giampaolo	28/04/09	Approval of the financial statements, year end 31/12/11	M		x	x	x	100	04	x	100	x	100					x	100
<b>Director</b>	Giordano Salvatore	28/04/09	Approval of the financial statements, year end 31/12/11	M		x	x	x	100	02	x	0	x	100					x	100
-----DIRECTORS LEAVING OFFICE DURING THE YEAR -----																				
<b>Note the quorum required for filing the lists at the last appointment: 2.5%</b>																				
<b>No. of meetings held during the financial year in question:</b>							B.o.D.: 6		ICC 2		RC: 1		CN:/		CE:/		CPC:3			

**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 2011**

<b>Board of Statutory Auditors</b>							
<b>Office</b>	<b>Members</b>	<b>In office from</b>	<b>In office until</b>	<b>List (M/m)*</b>	<b>Independence pursuant to the Code</b>	<b>** (%)</b>	<b>Number of other offices</b>
<b>Chairman</b>	Ciurlo Giovanni	28/04/09	Approval of the financial statements, year end 31/12/11	M	x	100	7
<b>Standing Auditor</b>	Sanchioni Claudio	28/04/09	Approval of the financial statements, year end 31/12/11	M	x	100	
<b>Standing Auditor</b>	Riccardo Pierpaoli	28.4.11	Approval of the financial statements, year end 31/12/11	M	x	50	
<b>Alternate Auditor</b>	Amadori Cristina	28.4.11	Approval of the financial statements, year end 31/12/11	M	x		
<b>Alternate Auditor</b>	Silvia Cecchini	28.4.11	Approval of the financial statements, year end 31/12/11	M	x		
<b>-----AUDITORS LEAVING OFFICE DURING THE YEAR -----</b>							
<b>Standing Auditor</b>	Franzoni Adriano	28/04/09	08.01.11	M	x		
<b>Alternate Auditor</b>	Amadori Cristina	28/04/09	08.01.11	M	x		
<b>Standing Auditor</b>	Amadori Cristina	08.1.11	28.04.11	M	x	50	
<b>Alternate Auditor</b>	Gabucci Daniela	28/04/09	08.01.11	M	x		
<b>Note the quorum required for filing the lists at the last appointment: 2%</b>							
<b>No. of meetings held during the financial year in question: 8</b>							

**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.