

**Corporate Governance  
and Ownership Structure Report**  
pursuant to Article 123-bis of the Consolidated Law on Finance

**(2017 Financial Year)**

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**Traditional administration and control model**

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

Financial year to which the Report refers: 1 January 2017 – 31 December 2017  
Date of approval of the report: 12 March 2018

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## GLOSSARY

**Biesse or the Issuer or the Company:** Biesse S.p.A., with its registered office at 16 Via della Meccanica, Pesaro.

**Code/Corporate Governance Code:** the Corporate Governance Code for listed companies approved in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civ.code/ c.c.:** the 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

**Long Term Incentive Plan 2015–2017:** the "Long Term Incentive Plan 2015–2017 of Biesse S.p.A." approved by the Shareholders' Meeting of 30 April 2015 and available on the company's website.

**Consob Issuers' Regulations:** the Regulation issued by Consob with Resolution No. 11971 of 1999 (as amended) on issuers.

**Consob Market Regulations:** the Regulation issued by Consob with Resolution No. 20249 of 2017 on markets.

**Consob Related Party Regulations:** the Regulation issued by Consob with Resolution No. 17221 of 12 March 2012 (as amended) on transactions with related parties.

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

**TUF or Consolidated Law on Finance:** Italian Legislative Decree No. 58 of 24 February 1998, and subsequent amendments and additions thereto.

## **INTRODUCTION**

This Report, containing a comparison of the Issuer's corporate governance system with the recommendations contained in the Corporate Governance Code for Listed Companies, is drawn up pursuant to and for the purposes of Article IA.1.1.1.11 of the Instructions accompanying the Regulation for Markets Organised and Managed by Borsa Italiana S.p.A.. The format of this Report is based on the corporate governance and corporate ownership report that issuers listed on regulated markets must prepare pursuant to Article 123-*bis* of the Consolidated Law on Finance, published by Borsa Italiana S.p.A. in January 2018 (VII edition).

This Report reflects the Issuer's corporate governance system and ownership structure at **31 December 2017**, with references to subsequent events until the date of its approval.

### **1. ISSUER PROFILE**

#### a) Operations

Biesse operates in the market of machinery and systems for processing wood, glass/stone and advanced materials. 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 19 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 mindful of its moral and social responsibility towards all stakeholders (employees, shareholders, clients, suppliers, communities, business and financial partners, institutions, trade associations, trade union associations, etc.) in the belief that the achievement of the company's 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 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 31/12/2017)

### a) Share capital structure

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

<i>SHARE CAPITAL STRUCTURE</i>				
	<b>No. of shares</b>	<b>% of share capital.</b>	<b>Listed/Not listed</b>	<b>Rights and obligations</b>
Ordinary shares	27,393,042 <sup>1</sup>	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.

<sup>(1)</sup> of which 10,000 treasury shares, with no voting rights.

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.

The new long-term incentive plan called the "Long Term Incentive Plan 2015–2017 of Biesse S.p.A." was approved by the Shareholders' Meeting on 30 April 2015 and involves the allocation of treasury shares. For more information on the "Long Term Incentive Plan 2015–2017", please refer to the document published pursuant to Article 84-bis of the Consob Regulation on Issuers of 19 March 2015.

### 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

At 31 December 2017, shareholders holding more than 5% 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:

<b>SIGNIFICANT EQUITY INVESTMENTS IN THE SHARE CAPITAL</b>				
<b>Declarant</b>	<b>Direct shareholder</b>	<b>Number of shares</b>	<b>% of ordinary share capital</b>	<b>% of voting share capital</b>
Selci Giancarlo	Bi.Fin S.r.L.	13,970,500	51%	51%

d) Securities that grant special rights

The Issuer has not issued securities that grant special controlling rights. The Articles of Association make no provision for multiple or enhanced voting rights.

e) Employee share ownership: mechanism to exercise voting rights

Without prejudice to the rights of beneficiaries of the "Long Term Incentive Plan 2015–2017", concerning the allocation of treasury shares should any of the prerequisites stated therein occur, the Issuer has not adopted any employee share capital ownership system. For more information on the "Long Term Incentive Plan 2015–2017", please refer to the document published pursuant to Article 84-bis of the Consob Regulation on Issuers of 19 March 2015.

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 1-bis 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 30 April 2015, the Shareholders' Meeting authorised the Board of Directors to acquire treasury shares pursuant to Articles 2357 and 2357 *ter* of the Civil Code and within the limit provided for in Article 2357 of the Civil Code, establishing that purchases may be made at any time, in one or more tranches, within a maximum period of 18 months starting from 30 April 2015. Again with resolution dated 30 April 2015, the Shareholders' Meeting expressly authorised use of these shares in the framework of the "Long Term Incentive Plan 2015–2017", which is discussed in point 8.

At 31 December 2017, the balance of the shares held by the Issuer was 10,000, equivalent to 0.0003651% of the share capital and worth approximately €1,900,000.00 at current market values.

l) Management and Co-ordination

The Issuer is controlled by BI.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 BI.FIN S.r.l.

As required by Article 2497 *bis* of the Civil Code, all the Italian subsidiaries controlled directly by the Issuer have disclosed that they are managed and co-ordinated by the Issuer.



The information required by Article 123 *bis*(1)(i) and (l) is 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 on 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 website of the Corporate Governance Committee at <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>. Where the Company decided not to comply with the specific recommendations contained in the Code is indicated in this Report along with the reasons for such non-compliance.

In compliance with Article 123-ter of the 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 cornerstone of 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;
- Procedure on Internal Dealing, updated by the Board of Directors at its meeting on 3 August 2016 in light of the new legislation introduced by Regulation (EU) No 596/2014 of 16 April 2014 and its implementing regulations ("**Market Abuse Regulation**");

- Procedure for the management of inside information, updated by the Board of Directors at its meeting on 10 November 2017 in light of the new Consob Guidelines on the management of inside information, published in October 2017;
- 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) are available online (in Italian and English) at [www.biessegroupp.com](http://www.biessegroupp.com), in the Investor Relations/Corporate governance section.

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 state 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 (it is pointed out in this regard that, pursuant to Consob Resolution 20273 of 24 January 2018, the minimum percentage established by Consob for 2018 is 1%).

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.

#### *Succession plans*

As decided by the Board at its inauguration, there are no succession plans for the executive directors owing to the nature of the Company's ownership structure and shareholding concentration. For the same reasons, there are no plans to adopt succession plans during the current tenure of the Board of Directors.

## **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 in office as at 31 December 2017 consists of seven members, two of whom are women, whose term of office expires upon approval of the financial statements to 31 December 2017. The seven directors were appointed by resolution of the Shareholders' Meeting held on 30 April 2015, following their election from the single candidate list filed by the shareholder Bi.Fin. S.r.l., with 18,215,601 votes in favour, representing 66.50% of the share capital. No other candidate lists were filed.

The Board of Directors had five executive directors as at 31 December 2017:

- Roberto Selci, Chairman of the Board of Directors;
- Giancarlo Selci, Chief Executive Officer;
- Alessandra Parpajola, Director;
- Stefano Porcellini, Director;
- Cesare Tinti, Director.

Two directors are non-executive and independent, in accordance with the Code:

- Salvatore Giordano, Independent Director;
- Elisabetta Righini, Independent Director;

<b>Term served by Directors since their initial appointment</b>		
<b>Directors</b>	<b>Date of initial appointment</b>	<b>Total number of years in office</b>
Roberto Selci	2000	17
Giancarlo Selci	1994	23
Alessandra Parpajola	2005	12
Stefano Porcellini	2006	11
Cesare Tinti	2012	5
Salvatore Giordano	2006	11
Elisabetta Righini	2015	3

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 18/04/1960, joined the Biesse Group in 1988. Initially holding various Sales/Marketing roles in the Company's Asian and US branches, he eventually went on to promote the internationalisation of the Biesse Group in subsequent years. Roberto Selci is the son of Giancarlo Selci, the Company's founder.

*Giancarlo Selci*, born in Pesaro on 02/01/1936, is the Company's founder. Awarded the honours of Ufficiale and Cavaliere del Lavoro, he has always been actively involved in all Biesse operations. It has been under his guidance that the Group has grown steadily in size to reach international proportions, becoming a leading multinational in the sector.

*Alessandra Parpajola* was born in Dolo, Venice, on 12/06/1973. After graduating in Business Economics from Bocconi University in Milan, she began her career working for the family business. 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* was born in Rimini on 23/11/1965. He graduated from Bocconi University in Milan with a degree in Business Economics, majoring in Finance. 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. Subsequently, in 2012, he took on the role of Chief Operating Officer.

*Cesare Tinti*, born in Pesaro on 24/07/1968, is a graduate in Business and Economics from the University of Urbino. His professional career has mainly been in the Biesse Group which he joined in 1995 with the role of CEO of a Group company. He held various positions before becoming Head of the Glass & Stone Division and then, in 2012, Head of the Wood Division (Industrial Department). In 2012 he was appointed to the Board of Directors of Biesse.

*Salvatore Giordano*, Independent Director, was born in Pietrafitta di Cosenza on 10/09/1950. He holds a degree in Law from the University of Camerino (MC). 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..

Mr Giordano owns 200 Issuer shares as at 31/12/2017.

*Elisabetta Righini*, Independent Director, was born in Forlì on 25/03/1961. She studied at the University of Bologna where she graduated in Law. She has had a brilliant university teaching career, becoming Director of the course in Commercial Law and Financial Markets at the School of Economics of the University of Urbino, the course in Commercial Law at the Fano campus of the School of Economics of the University of Urbino, and the course in Commercial Law (first and second module) at the Law School of the University of Urbino. Author of a numerous legal and economic publications, since April 2013 she is an Independent Director of Unipol Gruppo finanziario S.p.A..

As at 31/12/2017, Prof. Righini does not own any Issuer shares.

The fit and proper assessment required by law was carried out for all members of the Board of Directors. More specifically, the members of the Board of Directors meet the integrity requirements <sup>1</sup>under Article 148(4) of

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<sup>1</sup> Article 2 of Decree No. 162 of the Ministry of Justice of 30 March 2000: 1. The office of statutory auditor of the companies referred to in Article 1(1) may not be held by persons who: a) have been subjected to preventive measures ordered by a judicial authority pursuant to Law No. 1423 of 27 December 1956, or Law No. 575 of 31 May 1965, as amended, unless their conviction is spent; (b) have been

the Consolidated Law on Finance and the Regulation adopted by Decree No. 162 of the Ministry of Justice of 30 March 2000, as confirmed at the Hearing of 12 May 2017.

On the same date, the directors Salvatore Giordano and Elisabetta Righini confirmed that they fulfilled the independence requirements laid down in Article 147-ter(4) of the Consolidated Law on Finance and the Corporate Governance Code.

Unless otherwise stated in the personal information relating to the Directors, none of the members of the Board of Directors has any personal ties as referred to in Book I, Title V of the Civil Code with other members of the Board of Directors, nor between them and the members of the Board of Statutory Auditors of the Issuer or executives and other persons in a strategic role.

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.

The Board in office as at 31 December 2017 did not consider it necessary to establish programmes aimed at providing the directors with adequate knowledge of the industry in which the Issuer operates, of the business dynamics and trends and of the reference legislative and self-regulatory framework (i.e. induction programmes) since all of the executive Board members have worked at the Biesse Group since its origins or hold or have held operating roles within the company for various years. The independent directors have considerable industrial, financial and legal experience as well as experience of risk management, acquired in the course of their respective careers.

Regarding the composition of the Board in office at 31 December 2017, the Issuer did not consider it appropriate to adopt a diversity policy in relation to aspects such as age, gender, education and professional background, since (i) with regard to gender diversity, the Issuer already applies the provisions of Article 147-ter and Article 148 of the Consolidated Law on Finance; (ii) during the evaluation of the Board's functioning carried out on 12 May 2017, no critical issues emerged regarding the professional background or gender of its members, and (iii) the Board in office as at 31/12/2017 is nearing the end of its term and it was deemed preferable to refer decisions on this matter to the new Board.

#### **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).

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sentenced to one of the following by a final court ruling, unless their conviction is spent: 1) a custodial sentence for one of the offences under the laws on banking, financial and insurance activities and the laws on markets and financial instruments, tax and payment instruments; 2) imprisonment for one of the offences provided for in Title XI of Book V of the Italian Civil Code and Royal Decree No. 267 of 16 March 1942; 3) imprisonment for a period of not less than six months for a crime against the public administration, public faith, property, public order or the economy; 4) imprisonment for a period of not less than one year for any offence with criminal intent. 2. The office of statutory auditor in the companies referred to in Article 1(1), may not be held by anyone subject, at the request of the parties, to one of the penalties provided for in paragraph 1(b), unless the offence has been extinguished.

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, with resolution of 30 April 2015, 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.

The Board, as provided for by the Articles of Association and resolution of 30 April 2015, is in particular 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 Directors, 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 Chief Operating Officers 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 risks and 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 on the internal control system and the management of risks and 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 section 10.5.

The Shareholders' Meeting approved the remuneration for the directors at the Board meeting on 8 May 2015. The Board, upon a proposal from the Remuneration Committee, distributed to the directors the remuneration approved at the Shareholders' Meeting. No changes were made in 2017 compared with 2015. 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 Board of Directors normally meets at least four times 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 ended 31 December 2017, the Board of Directors held five meetings, each lasting 90 minutes on average. For the financial year ending 31 December 2018, the Board of Directors has scheduled five meetings, one of which was held on 28 February 2018 to approve the 2018–2020 three-year plan.

Table 2 below shows the percentage of attendance of each director at Board meetings: Roberto Selci 100%, Giancarlo Selci 60%, Alessandra Parpajola 60%; Stefano Porcellini 100%, Cesare Tinti 100%, Salvatore Giordano 80%, Elisabetta Righini 100%.

The assessment of the fit and proper and independence requirements of members of the Board of Directors and committees was carried out by the Board of Directors on 30 April 2015, following its inauguration. At the Hearing of 12 May 2017, it was confirmed that all directors fulfilled these requirements.

On 12 May 2017, the Board of Directors assessed how it and its Committees functioned. It took into account factors such as the professional background, managerial and other experience and gender of its members, as well as how long they had been in office at the time of its inauguration. This assessment was carried out by sending all Directors a self-assessment questionnaire. No major criticisms or recommendations emerged from this assessment regarding the composition and functioning of the Board.

The Board has not specifically assessed the suitability of the Issuer's organisational, administrative and accounting structure established by the Chief Executive Officer in 2017, since this has not changed significantly from the structure in place in the previous financial year.

The Board did not assess the suitability of the organisational, administrative and accounting structure of the subsidiaries during the year, since no specific requirements were identified in this respect and no significant changes have occurred compared with the structure in place in the previous financial year.

For Board meetings, directors are provided reasonably in advance with the documents and information needed by the Board in order to discuss the issues examined. In any event, the Chairman ensures that prompt and appropriate clarification is given at Board meetings. Board meetings are regularly attended by the lawyer Mr Achille Marchionni, who acts as secretary. In addition, the meeting of 28/02/2017, which approved the Biesse Group's three-year plan for 2017/19, was also attended by the Group Finance Director Alberto Aurri and the Group CFO Cristian Berardi.

As Group CFO, Cristian Berardi also attended the subsequent meetings of 14/03/2017, on the approval of the Biesse S.p.A. draft financial statements for 2016, of 12/05/2017, on the approval of the consolidated report on operations for the first quarter of 2017, of 04/08/2017, on the approval of the consolidated report on operations for the first half of 2017, and of 10/11/2017, on the approval of the consolidated report on operations for the third quarter of 2017.

Elena Grassetti, as Head of the Legal Affairs and Insurance Department, and Domenico Ciccopiedi, as Head of the Internal Audit Office, took part in the meeting of 12/05/2017, which examined the fit and proper requirements of Board members and assessed the Group's organisational, administrative and accounting structure, particularly with regard to the internal control and risk management system.

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 8 May 2015, 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. By virtue of the powers conferred, the Chairman is one of the main persons responsible for management of the Issuer (*Chief Executive Officer*).

##### Chief Executive Officers

The resolution of 8 May 2015 confirmed that the Chief Executive Officer, Giancarlo Selci, had been granted all powers of ordinary administration with the sole limitation of operations that the Board had decided to subject to the prior approval of the Board itself.

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.

Based on the granted powers Giancarlo Selci can be considered one of the *Chief Executive Officers* of the Company. No *interlocking directorate* are present included in the application criteria 2 paragraph 5 of the Code. The CEO, Giancarlo Selci, also controls Bi.Fin S.r.l. and therefore controls the Company.

##### Executive Directors

Also by the resolution adopted on 8 May 2015, 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 as to the amount; the power to sign correspondence, sign and endorse cheques, order bank transfers, sign income tax and VAT returns, 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 8 May 2015, 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. In addition to these powers, Mr Porcellini, as General Manager, has powers of ordinary administration and specific responsibility for the control and supervision of Italian and foreign subsidiaries.

The Director Cesare Tinti, with the resolution adopted on 8 May 2015, has been assigned responsibility for supervision, control and coordination of the Group's Wood Division (Industrial Department).

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 other than those indicated in point 4.4 above.

#### **4.6 INDEPENDENT DIRECTORS**

The Company, in accordance with principle 3.c.3 of the Code, has two independent directors who are Mr. Salvatore Giordano and Prof. Elisabetta Righini.

The independent directors 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, upon appointment on 30 April 2015. This was confirmed at the Hearing of 12 May 2017.

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, in the light of the size and organisational structure of the Board in office at 31 December 2017. These directors bring their specific competencies to Board discussions and contribute to decisions being made in the Company's interest. They have also agreed to maintain their independence during their entire term.

The Independent Directors did not, during the 2017 financial year, hold separate meetings from those of the Committees since they considered the discussions and insights carried out on the functioning of the Board to be sufficient and, in general, on the functioning of the Corporate Governance of the Company carried out at meetings of the Control and Risk Committee of which they are members.

#### **4.7 LEAD INDEPENDENT DIRECTOR**

The Board, acknowledging that international best practice recommends avoiding the concentration of offices on a single person without adequate checks and balances in order to ensure full compliance with the Principles of the Code, has established the function of *Lead Independent Director*, appointing to fill this role independent director Salvatore Giordano. 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 2017, the *Lead Independent Director* called:

- the meetings of the Control and Risk 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, particularly as regards price-sensitive inside information, is governed by a procedure approved by the Board of Directors on 14 February 2006. This procedure was subsequently amended and approved at the meeting of 3 August 2016 following the entry into force of the Market Abuse Regulation (MAR). Such regulations ensure the complete, correct, clear, transparent, timely, continuous and maximum dissemination of information concerning the Company and its subsidiaries, as well as compliance with the primary and secondary legislation in force. These procedures also require a list to be drawn up of individuals with access to inside information (insider list). This procedure is available on the Company's website [www.biessegroupp.com](http://www.biessegroupp.com), on the "Corporate Governance" page in the Investor Relations section. Following the publication of the new Consob Guidelines on inside information in October 2017, the Company decided to update its regulations, as approved by the Board of Directors at its meeting on 10 November 2017. The changes introduced by the Guidelines include the list of all persons who have access to inside information (the insider list), which the Company has established.

#### **Internal Dealing Code of Conduct**

On 3 August 2016, the Board of Directors revised its internal rules on internal dealing in view of the entry into force of the MAR. This procedure is available on the Company's website [www.biessegroupp.com](http://www.biessegroupp.com), on the "Corporate Governance" page in the Investor Relations section.

#### **Antitrust Code of Conduct**

At the Board of Directors meeting on 11 November 2011, the Company approved the adoption of an "Antitrust Code", subsequently updated in May 2016, 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 8 May 2015, the Board of Directors set up a committee that carries out the duties required by the Code for the Control and Risk Committee, the Committee for Related Party Transactions and the Remuneration Committee, made up of two independent directors. The Board of Directors has no other committees.

The internal rules of procedures for these committees were approved by the Board of Directors on 3 August 2016 and are available on the Company's website [www.biessegroupp.com](http://www.biessegroupp.com), on the "Corporate Governance" page in the Investor Relations section.

### **7. APPOINTMENTS COMMITTEE**

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.

### **8. REMUNERATION COMMITTEE**

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

- Salvatore Giordano, Independent Director, Chairman of the Remuneration Committee;
- Elisabetta Righini, Independent Director.

The Board of Directors has acknowledged, on appointment of the members of the Remuneration Committee, that directors Salvatore Giordano and Elisabetta Righini have adequate knowledge and experience in accounting and financial matters.

The Committee has the task to (i) submit to the Board proposals for the definition of the general policy for the remuneration of CEO's, executive directors, of other directors holding particular offices and executives with strategic responsibilities, monitoring the implementation of resolutions adopted by the Board; (ii) periodically evaluate the criteria adopted for the remuneration of key management personnel, monitoring their application and making recommendations to the Board in general; (iii) submit proposals to the Board on the remuneration of executive directors and other directors who hold particular offices as well as setting performance targets related to the variable component of remuneration; (iv) monitor the implementation of Board resolutions, verifying, in particular, the actual achievement of performance targets. Directors must abstain from taking part in Committee meetings which include discussion of the Board remuneration proposals.

When carrying out its duties, the Remuneration Committee can access the necessary company information and functions, as well call upon external consultants under the terms established by the Board of Directors.

During the financial year, the Committee met once, on 9 March 2017, when it was called upon to make a comparison between the current remuneration of the Company's executive directors/key managers and the provisions of the Remuneration Policy approved in 2011 and since amended. At the end of the meeting, the Committee concluded that it was unnecessary to amend the Remuneration Policy for 2017.

As in previous years, no financial resources were allocated to the Committee since, in order to fulfil its duties, it uses the Issuer's corporate resources and facilities.

## **9. REMUNERATION OF GROUP DIRECTORS AND TOP MANAGEMENT**

During the 2015 financial year, the Company, in accordance with Article 123-ter of the Consolidated Law on Finance, adopted, with the prior approval of the Remuneration Committee and in agreement with the Board of Statutory Auditors, the Remuneration Policy (hereafter "**Policy**"). The Policy was originally adopted by resolution of 11 November 2011 of the Board of Directors and was supplemented by the Board of Directors' resolution of 12 March 2015, in order to transpose the requirements of application criterion 6.C.1 (f) of the Corporate Governance Code concerning the possibility for the Company to reclaim the variable components of remuneration in cases where these had been allocated on the basis of information subsequently proved to be manifestly incorrect. The opportunity was taken to introduce a number of changes to the form of the Policy to take account of changes to the Corporate Governance Code of July 2014.

The Policy establishes guidelines and principles for the definition of remuneration of key management of Biese 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) Biese 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 to the adoption of the Policy and already with a view to the provisions of Article 6 of the Corporate Governance Code, the Company, in order to attract, retain and motivate Directors with specific professional qualities necessary to successfully manage Biese and to ensure that the interests of Executive Directors were aligned with 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 targets (also known as variable incentive bonuses or schemes).

Furthermore, the Shareholders Meeting of the Company held on 30 April 2015 approved, pursuant to and by effect of art. 114-*bis* of the Consolidated Law on Finance, the "Long Term Incentive Plan 2015 – 2017"; 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. On 19 October 2012, the Shareholders' Meeting 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, 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 "Long Term Incentive Plan 2015–2017" 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 Biese remuneration policy, please refer to the corresponding Report pursuant to art. 123-*ter* of the Consolidated Law on Finance, which has been published as provided by law. It is pointed out that the claw-back clause provided for in application criterion 6.C.1. (f) of the Code was adopted in the Remuneration Policy submitted for approval by the Shareholders' Meeting called to approve the financial statements as at 31 December 2015. On this point, please refer to that indicated in the corresponding Remuneration Report that will be published according to legislation. This Remuneration Policy, unchanged from the version previously approved, will be submitted for confirmation to the Shareholders' Meeting called to approve the financial statements to 31 December 2017.

For more information on the "Long Term Incentive Plan 2015–2017", please refer to the Information Document published pursuant to Article 84-*bis* of the Consob Regulation on Issuers of 19 March 2015.



**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 during 2017 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.

## 10. CONTROL AND RISK COMMITTEE

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

- Salvatore Giordano, Independent Director, Chairman of the Remuneration Committee;
- Elisabetta Righini, 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) providing the Board of Directors a prior opinion for carrying out the tasks assigned to the same by the Code on internal control and risk management;
- b) 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;
- c) 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;
- d) examining the working plan prepared by the Internal Audit Manager;
- e) evaluating the results presented in the auditors' report and in any recommendation letter;
- f) monitoring the independence, adequacy, effectiveness and efficiency of the Internal Audit department;
- g) asking the Internal Audit department – should the need arise – to perform checks on specific operating areas, simultaneously informing the Chairman of the Board of Statutory Auditors;
- h) reporting to the Board of Directors, at least every six months, on their activities and on the adequacy of the internal control and risk management system
- i) to support with a proper investigation the Board's assessments and decisions regarding the management of risks arising from detrimental facts that the Board has become aware of

The Committee reports periodically with the Internal Audit department and the Board of Statutory Auditors.

During the year, the Control and Risk Committee held 4 meetings, duly recorded, with average duration of sixty minutes. The meetings were always attended by Committee members.

Both Salvatore Giordano and Elisabetta Righini attended 100% of the Committee meetings.

The Board has four meetings scheduled in 2018, one of which was held in March.

The Chairman of the Board of Statutory Auditors and the statutory auditors Riccardo Pierpaoli and Cristina Amadori, as well as the Internal Audit Manager, attended meetings of the Control and Risk Committee.

In carrying out its duties in 2017, the Control and Risk Committee assessed the documentation on the Issuer's risks, overseeing the detailed operational update of the risk assessment conducted by the Issuer during the listing phase. It also assessed the accounting principles that served as a basis for the financial reports, and reviewed the activities of the Internal Audit department. It was able to access the necessary company information and functions to carry out its duties. In order to discharge its responsibilities, the Control and Risk

Committee has been allocated sufficient human resources for the work carried out, in view of its brief tenure. The Chairman reports on the work carried out by the Committee during the Board's plenary meetings.

## **11. INTERNAL CONTROL SYSTEM**

The internal control system of the Biesse Group consists of a set of rules that define behaviours, values and procedures to be followed by all employees and contractors. The aim is to ensure good corporate governance and monitor the key business risks, as well as ensure the reliability of all financial and other information given to the Company's various bodies and to the market.

At the meeting of the Board of Directors on 12 May 2017, the Chairman of the Control and Risk Committee, Salvatore Giordano, confirmed that the Internal Control and Risk Management System was adequate for the Group's needs. The Board of Directors therefore decided at the meeting to consider this System adequate.

The Internal Control and Risk Management System reduces but cannot eliminate the possibility of wrong decisions, human errors, fraudulent violation of control systems and unpredictable events. Therefore a good Internal Control and Risk Management System provides reasonable, but not absolute, assurances that the Company will not be hindered in achieving its business objectives or in the orderly and legitimate conduct of its activities, by circumstances which may reasonably be foreseen.

The Internal Control and Risk Management System of the Company, defined according to national and international leading practice, consists of the following three levels of control:

- 1st level: operational functions identify and assess risks and define specific actions for their management;
- 2nd level: functions responsible for controlling risks define risk management methodologies and tools and carry out risks monitoring activities;
- 3rd level: the Internal Audit department provides independent assessments of the entire System.

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 guidelines also took into account all the risks that could affect the long-term sustainability of the Company's business.

The hierarchy of this control system can be defined in the points below.

### **11.1 EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The reference person of the Control and Risk Committee is Director Alessandra Parpajola, 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 Director responsible is assisted by the Internal Audit Manager, who reports directly to him. The Internal Audit Manager, Mr. Domenico Ciccopiedi, was appointed on 4 August 2014 at the proposal of the Chairman of the Board of Directors, who also proposed his remuneration.

The above-mentioned representative:

- a) has identified the key business risks (strategic, operational, financial and compliance), taking into account the characteristics of the activities carried out by the Issuer and its subsidiaries, and periodically submitted them to the Board;
- b) has implemented the guidelines defined by the Board, overseeing the design, implementation and management of the internal control and risk management system, constantly monitoring its adequacy and effectiveness;
- c) has ensured adaptation of the system to changes in operating conditions and the legislative and regulatory framework;
- d) has the power to ask the Internal Audit department to perform checks on specific areas of operation and compliance with the internal rules and procedures in the execution of business operations, providing simultaneous notification to the Chairman of the Board, the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors;
- e) has promptly reported to the Control and Risk Committee (or the Board of Directors) on issues and problems emerging in the course of his activities or which, nevertheless, came to his knowledge, in order for the Committee (or the Board) to take appropriate action.

## **11.2 INTERNAL AUDIT MANAGER**

The Internal Audit Manager is appointed by the Chairman of the Board of Directors, in agreement with the Control and Risk Committee; he meets the independence requirements in compliance with the Corporate Governance Code.

According to the Corporate Governance Code, the Internal Audit Manager 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 his own appropriate financial resources. He has direct access to all information useful to perform his 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 Control and Risk Committee, and the Board of 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 Audit Manager in 2017 amounted to €70,000 (seventy thousand euros). During that period, the Internal Audit Manager was mainly involved in audit activities to verify the correct application of Group accounting procedures (Internal Control over Financial Reporting Model) during the preparation of financial reports. The following companies were subjected to these audits: Biesse Manufacturing Co. Pvt Ltd., Biesse Group Uk Ltd., HSD Mechatronic (Shanghai) Co. Ltd., , Biesse S.p.A., HSD S.p.A., Viet Italia S.r.l., Uniteam S.p.A., Bre.Ma. S.r.l., HSD USA Inc., HSD Deutschland GmbH. S.r.l., HSD USA Inc., HSD Deutschland GmbH.

The purposes, powers and responsibilities of Internal Audit's activities are formally defined by an Internal Audit Charter, consistent with the definition of Internal Auditing defined by the Corporate Governance Code, the Code of Ethics and the reference Standards.

The Internal Audit Manager:

- a) verifies, both continuously and in relation to specific needs and in compliance with international standards, the operation and suitability of the internal control and risk management system through an audit plan, approved by the Board of Directors, based on a structured process of analysis and prioritisation of the main risks;
- b) has had direct access to all relevant information for carrying out the assignment;

- c) has prepared periodic reports containing adequate information concerning his activity, the way in which risk management is conducted, as well as the compliance with defined plans for limitation of the same, in addition to evaluation of the suitability of the internal control and risk management system and has forwarded them to the Chairmen of the Board of Statutory Auditors, of the Control and Risk Committee and of the Board of Directors, as well as to the director responsible for the internal control and risk management system;
- d) has prepared timely reports on events of major importance and forwarded them to the Chairmen of the Board of Statutory Auditors, of the Control and Risk Committee and of the Board of Directors, as well as to the director responsible for the internal control and risk management system.
- e) verified the reliability of information systems, including accounting systems, as part of the audit plan

In 2017, the main activities carried out by the Internal Audit Manager were as follows: analysis and testing of the internal control system pursuant to Law No. 262/05; participating in Supervisory Bodies and audits under Legislative Decree 231/01 for the companies Biesse S.p.A., HSD S.p.A., Viet S.r.l., Uniteam S.p.A. and Bre.Ma. Srl; updating the Organisation, Management and Control Model pursuant to Legislative Decree 231/01 for Biesse S.p.A., HSD S.p.A. and Bre.Ma. S.r.l.; implementing an Organisation, Management and Control Model pursuant to Legislative Decree 231/01 for the companies Viet Italia S.r.l. and Uniteam S.p.A.; overseeing the certification of related-party transactions involving the Group's senior management; managing the Enterprise Risk Management process; identifying and managing risks internal to the Group.

### **11.3 ORGANISATIONAL MODEL pursuant to LEGISLATIVE DECREE 231/2001 and CODE OF CONDUCT**

In March 2010, the Biesse Group adopted a Code of Conduct as an integral part of its Internal Control System. The Code of Conduct enshrines the principles of ethics and professionalism that the Group expects all directors, auditors, employees, associates, consultants, and partners to strive for. The Code of Conduct was adopted by all the Group companies in Italy and abroad. The Code aims to convey the importance of operating in a way that is sustainable and that can protect the interests of all stakeholders. It has been integrated in order to provide guidelines for environmental protection, health and safety and ethical business practices too.

The Code of Conduct is an official document that expresses the ethical commitments and responsibilities for Biesse and other Group companies when conducting business and managing the company's affairs. 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 of Conduct is an integral part of the Organisation, Management and Control Model of Biesse S.p.A. pursuant to Legislative Decree No. 231 of 8 June 2001 (hereafter "**Model**") approved by the Board of Directors in 2007 and laying down provisions on the administrative liability of legal entities.

On 4 August 2017, the Board of Directors of Biesse S.p.A. approved the latest version of the Model. The special sections on safety, the environment and corporate offences had been amended in view of the regulatory updates on the subject of bribery between private individuals and the inclusion of the offence of criminal conspiracy with reference to the commission of offences under Legislative Decree No. 231 by three or more persons.

The Model is the result of a long and in-depth analysis of the risks associated with Biesse's legal status. It is consistent with the principles enshrined in 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 subsequent amendments.

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 provided for in Legislative Decree No. 231/01, with specific reference to significant offences in relation to Biesse's business, and a list of procedures required 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 origin, in addition to self-laundering;
- Offences against the public trust;
- Crimes against industry and trade;
- Environmental crimes;
- Crimes related to irregular worker employment;
- Crimes concerning bribery between private individuals;
- Copyright infringement offences.

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 of 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 Legislative Decree 231/01.

The Model and Code of Conduct are available on the Company's website at [www.biessegroupp.com](http://www.biessegroupp.com), in the Investor Relations section.

#### **11.4 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

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 and risk management system and sets its guidelines, periodically checking its adequacy and effective functioning, also through the Control and Risk Committee and finally, describes its essential elements in relation to corporate governance.

At the Board meeting of 3 August 2012, following prior approval by the Control and Risk Committee, the Company adopted the new policy for the management of risks/opportunities (or Enterprise Risk Management – ERM). In this Policy, in the light of the new Corporate Governance Code, the management of risks/opportunities plays a central role in the corporate governance rules; it is the responsibility of the Board of Directors to ensure proper management of key risks/opportunities, while the Committee must play a role of assurance on the adequacy of the internal control system. Via the ERM, the rules with which the Biesse Group performs the evaluation of risks/opportunities are established and formalised, thus introducing a structured process and adequate operational tools. This document was drafted taking inspiration from the main benchmarks in the field of Enterprise Risk Management, such as the COSO Enterprise Risk Management framework. Adopting adequate and modern tools in this field will allow the internal functions to adequately structure the process, partly with the aim of internally sharing in-depth knowledge about the management of risks/opportunities, to ensure a more strategic/preventive (rather than the typical reactive) approach. The Internal Audit Manager describes how, at the operational level, the ERM is structured with reference to three phases described as follows:

- The first is the risk assessment that aims to identify, describe, classify and assess risks/opportunities. This phase was carried out in two separate moments; Risk Identification and Risk Evaluation through the identification of various types of risks to which the Company is exposed.
- The second is the risk treatment that aims to define targets and the owners responsible for implementing and maintaining appropriate risk/opportunity management measures.
- The third is the risk monitoring that aims to implement an effective internal control process on the effectiveness and effective implementation of the ERM Policy and of the tools defined by the Group for risk/opportunity management

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

- First level checks carried out in individual legal entities, offices and divisions based on the assignment of responsibilities, powers and mandates, separation of duties, assignment of privileges and rights of access in IT applications;
- Second level checks through the issuing of authorisations by individual department managers (e.g. budget, investment and/or purchase requests, signing of service contracts) or through the operative supervision of the individual responsibilities (e.g. verification of reconciliations, analysis of the coherence of data, 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 No. 231/01) and external control bodies (Board of Statutory Auditors, Independent Auditor, Certifying Bodies).

With a view to creating value for shareholders, which Biesse believes to be essential to work towards this goal by increasing the measures set up to protect the integrity of information intended for shareholders, Biesse has taken swift action to improve efficiency and focus on achieving compliance with the provisions of Law No. 262/2005. Specifically, in order to protect shareholders and stakeholders in general, in 2007 Biesse introduced procedures to ensure the veracity, correctness and transparency of the data by (i) a preliminary scoping activity aimed at identifying the significant types of transactions, transactions not considered routine, and accounting estimates to be included in the scope of the analysis in relation to significant related accounts at a consolidated level, based on defined qualitative and quantitative criteria (e.g. materiality, inherent risk, 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 implementation of a round of tests on the entire internal control system designed to verify its relevance and effectiveness and preparation of a Remediation Plan with a view to completely achieving the control objectives defined in the scoping phase.

To fully implement the ICFR model, Biesse has set out requirements regarding: i) the compliance plan, which establishes the rules for the formalisation, maintenance, management and control of the model; ii) the collation procedure, whose purpose is to ensure that the Chairman of the Board of Directors and the Financial Reporting Officer 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 to the Group's Internal Audit department and any changes must be approved by the Control and Risk 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 function, the Control and Risk Committee and the Supervisory Board in risk analysis activities and verification of the controls, ensuring the ability to track information and activities.

### **11.5 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.

### **11.6 FINANCIAL REPORTING OFFICER**

On 8 May 2015, in accordance with Law No. 262 of 28 December 2005, in addition to the provisions of the Articles of Association of the company, the Board of Directors, following a proposal from the Chairman and after consulting the Board of Statutory Auditors, unanimously confirmed the Head of Administration, Finance and Control, Cristian Berardi, as the new Financial Reporting Officer. The Reporting Officer possesses all the requirements of professionalism and integrity required by applicable law to carry out this task, being an expert in the fields of administration, finance and control and in possession of the necessary integrity requirements.

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

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

### **11.7 COORDINATION AMONG THOSE INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The issuer provides for coordination procedures among those involved in the Internal Control and Risk Management System in order to maximize the efficiency of the internal control and risk management system and to reduce duplication of effort. To this end, the Board of Directors receives and examines the quarterly reports prepared by the Internal Audit Manager, by the Control and Risk Committee and by the Director in charge of the Internal Control and Risk Management System, in order to verify (i) whether the structure of the Internal Control and Risk Management System in place within the Group is effective in achieving the objectives and (ii) whether any reported weaknesses imply the need for System improvement.

## **12. 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 ("**Consob Regulation**"), on 12 November 2010 the Board of Directors of the Company adopted, with the prior approval of the Internal Control Committee at the time, the procedure governing transactions with related parties, laying down the rules for transactions with related parties with the aim of ensuring, for itself and its subsidiaries, the transparency and substantive and procedural fairness of transactions with related parties 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 the assignment of remuneration and economic benefits, in any form, to members of the Board of Directors and Statutory Auditors and to key managers.

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. Taking into account 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 decides whether any changes are necessary or appropriate.

As the Company is a smaller listed company and pursuant to the recent amendments to the Articles of Association, Biesse is taking advantage of the ability to apply the procedural system allowed for Minor RPTs to Major RPTs, 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 two independent directors and uses the prerequisites set forth by applicable law and regulations. This Committee is the Control and Risk Committee.

During the financial year, the Committee held one meeting, with minutes taken as required, lasting an average of forty-five minutes. All members participated in the meeting. One meeting is planned in 2018.

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.

The Biesse Related Party Transactions Regulation is available on the company's website at [www.biessegroupp.com](http://www.biessegroupp.com) - section "Investor Relations".

## **13. 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 set 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 (for 2018, 1% – it is pointed out that, in any case, any lower percentage provided for in the Articles of Association is applied). 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 the event of the 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.

#### **14. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (Article 123-bis(2)(d) and (d-bis) of the Consolidated Law on Finance)**

The Board of Statutory Auditors in office was appointed by the ordinary Shareholders' Meeting on 30 April 2015 and remains in office until approval of the financial statements of the year ended 31 December 2017. 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 18,067,090 shares, equal to 66.01% of share capital. No other candidate lists were filed.

The Board of Statutory Auditors held nine meetings in 2017, each lasting an average of two hours.

The Board has eight meetings scheduled in 2018.

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

Mr. Giovanni Ciurlo (Chairman), born in Genoa on 14 August 1960, graduate in economic sciences with honours in 1983 and registered in 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 2017, he does not own any shares in the Issuer.

Main offices: Chairman of the Board of Statutory Auditors of Unicasim Spa, Chairman of the Board of Statutory Auditors of Comarco Spa, Statutory Auditor of Fine PCB Spa, Statutory Auditor of Italmatch Chemicals Spa, Chairman of the Board of Statutory Auditors of Perini Navi Spa, Statutory Auditor of Polimeri Speciali Holding Spa, Statutory Auditor of Ruffini Partecipazioni Srl

Mr Riccardo Pierpaoli (Standing Auditor) was born in Pesaro (PU) on 04/01/1967. He holds a degree in Business and Economics and is a qualified Chartered Accountant and Auditor. He is listed in the Register of Auditors under no. 72145, following the decision of 26/05/1999 published in the Official Gazette, Supplement 45 – Special Series IV – of 08/06/1999. Technical consultant at the Court of Pesaro, Bankruptcy Receiver at the Court of Pesaro, Chairman of the Board of Statutory Auditors of several unlisted companies. He is a partner of the Studio Commerciale Associato Polidori & Pierpaoli specialising in corporate, contractual and fiscal issues.

As at 31/12/2017 he does not possess shares of the Issuer.

Cristina Amadori (Standing 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 standing auditor in a number of unlisted companies.

As at 31/12/2017 he does not possess shares of the Issuer.

Silvia Cecchini (Alternate Auditor), born in Petriano (PU) on 28 March 1960, with a 1st class honours degree in Business and Economics from the University of Ancona in 1985, enrolled in the Board 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 and Economics of Urbino.

As at 31/12/2017 he does not possess shares of the Issuer.

Nicole Magnifico (Alternate Auditor), born in Sassocorvaro (PU) on 23 July 1985, graduated with a 1st class honours degree in Business and Economics from the University of Urbino in 2009, is enrolled in the Board of Chartered Accountants of the Province of Pesaro-Urbino since 2011, auditor and tax consultant. She is also a technical consultant, alternate auditor and liquidator in corporations and non-profit organizations.

Main offices: Standing Auditor on the Board of Statutory Auditors of Indel B S.p.A.

As at 31/12/2017 she does not possess any Issuer shares.

The attendance rate of auditors at meetings was as follows: Giovanni Ciurlo: [100%]; Riccardo Pierpaoli: [100%]; Cristina Amadori: [100%].

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 liaised with the Internal Audit department and with the Control and Risk Committee. It participated in all Committee meetings, to which the Internal Audit Manager reported on the work carried out.

The remuneration of the Statutory Auditors is commensurate with the commitment involved and the importance of the role held, as well as the size and sectoral characteristics of the Company.

Regarding the composition of the Board in office at 31 December 2017, the Issuer did not consider it appropriate to adopt a diversity policy for aspects such as age, gender, education and professional background, since: (i) for the election of the Board, it applied the provisions of Article 148 of the Consolidated Law on Finance on gender equality; (ii) for the election of the Board of Statutory Auditors, the applicable statutory and regulatory professional qualifications are already required; (iii) the Board in office as at 31/12/2017 is nearing the end of its term and it was deemed preferable to refer any decision on the matter to the new Board.

## **15. SHAREHOLDER RELATIONS**

Financial communication plays an essential role at Biesse in the value creation process for the Group: the Issuer has adopted a strategy to promote continuous and correct flows of information between the financial community, the market and the Issuer. Biesse has always actively worked to establish continuous dialogue with institutional investors, shareholders and the market, in compliance with the procedures adopted for public disclosure of inside documents and information. For this reason, the specific corporate function of "Investor Relations" was established, which Alberto Amurri was appointed to lead, working with the Board of Directors with the aim of ensuring the systematic publication of complete and timely disclosure through press releases, meetings with the financial community and periodic updates of the Company's website ([www.biessegroup.com](http://www.biessegroup.com)).

In 2017, Biesse participated in all events organised by Borsa Italiana (STAR events in Milan and London) and independently created various opportunities for meeting and dialogue 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 Organisation and Management Model ([www.biessegroup.com](http://www.biessegroup.com) - section "Investor Relations"). The documentation will remain available on the site for at least five years.

## **16. 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.biessegroup.com](http://www.biessegroup.com)).

Only one Shareholders' Meeting was held during the 2017 financial year. On that occasion, the Board reported to shareholders on the work carried out and on its planned activities, and endeavoured to ensure that shareholders had adequate information so that they could make the fully informed decisions required of the Shareholders' Meeting, including through the publication of reports required by applicable laws and regulations. The Board ensured shareholders were provided with adequate information on the elements necessary for them to take informed decisions pertaining to the Shareholders' Meeting.

Two directors attended the Shareholders' Meeting (Stefano Porcellini and Elisabetta Righini).

During 2017, 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.

#### **17. ADDITIONAL CORPORATE GOVERNANCE PRACTICES AND LETTER OF 13 DECEMBER 2017 SENT BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE TO THE CHAIRMEN OF THE BOARDS OF DIRECTORS OF LISTED COMPANIES**

There are no other corporate governance practices other than the above. Concerning the letter of 13 December 2017 sent by the Chairman of the Corporate Governance Committee to the Chairmen of the Boards of Directors of listed companies, it is pointed out that the Issuer already implements the recommendations it contained, except for: (i) the establishment of an Appointments Committee and (ii) the existence of succession plans. The reasons why the Company decided not to follow these recommendations are set out in this Report.

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

There were no other changes taking place subsequent to 31/12/2017.

#### **19. 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.

**TABLE 1****INFORMATION ON THE OWNERSHIP STRUCTURE**

<b>SHARE CAPITAL STRUCTURE</b>				
	<b>No. of shares</b>	<b>% of share capital.</b>	<b>Listed (specify markets)/ not listed</b>	<b>Rights and obligations</b>
<b>Ordinary shares</b>	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.
<b>Shares with limited voting rights</b>	/	/	/	/
<b>Ordinary shares without voting rights</b>	10,000	0.0003651%	Listed on the MTA, STAR segment	Treasury shares temporarily without voting rights

<b>OTHER FINANCIAL INSTRUMENTS</b> <i>(conferring the right to subscribe to newly issued shares)</i>				
	<b>Listed (specify markets)/ not listed</b>	<b>No. of instruments in circulation</b>	<b>Category of shares for conversion/exercise</b>	<b>No. of shares for conversion/exercise</b>
<b>Convertible bonds</b>	/	/	/	/

<b>SIGNIFICANT EQUITY INVESTMENTS IN THE SHARE CAPITAL</b>			
<b>Declarant</b>	<b>Direct shareholder</b>	<b>% of ordinary share capital</b>	<b>% of voting share capital</b>
Giancarlo Selci	BI.FIN SRL	51%	51%

**TABLE 2**  
**STRUCTURE OF THE BOARD OF DIRECTORS AND THE COMMITTEES**  
**at 31 December 2017**

Office	Members	Year of birth	Date of first appointment*	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 ****	Control and Risk Committee (CCR)		Remuneration Committee (CR)		Appointments Committee, if any		Executive Committee, if any		Related Parties Committee (CPC)		
													**** *	***	**** *	***	**** *	***	**** *	***	**** *	***	**** *
Chair.	Selci Roberto	1960	2000	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x				100												
CEO	Selci Giancarlo	1936	1994	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x				60												
Director	Parpajola Alessandra	1973	2005	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x				60												
Director	Porcellini Stefano	1965	2006	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x				100												
Director	Tinti Cesare	1968	2012	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x				100												
LID	Giordano Salvatore	1950	2006	30/04/2015	Approval of the financial statements as at 31/12/2017	M		x	x	x	80	01	x	100	x	100						x	100
Director	Righini Elisabetta	1961	2015	30/04/2015	Approval of the financial statements as at 31/12/2017	M		x	x	x	100	01	x	100	x	100						x	100
						<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.: 5		CCR: 4		CR:1		CN:/		CE:/		CPC:1				

**NOTES**

- \* By date of first appointment of each director is meant the date on which the director was appointed for the first time (ever) to the Board of Directors of the issuer
- \*\* 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 Board of Directors 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 Board of Directors is also a member of the committee.

**TABLE 3**  
**STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**  
**at 31 December 2017**

Board of Statutory Auditors									
Office	Members	Year of birth	Date of first appointment*	In office from	In office until	List (M/m) **	Independence pursuant to the Code	(%) ***	Number of other offices ****
Chairman	Giovanni Ciurlo	1960	2000	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x	100	7
Standing Auditor	Cristina Amadori	1967	2000	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x	100	/
Standing Auditor	Riccardo Pierpaoli	1967	2011	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x	100	/
Alternate Auditor	Nicole Magnifico	1985	2015	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x	/	1
Alternate Auditor	Silvia Cecchini	1960	2011	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x	/	/
		Note the quorum required for filing the lists at the last appointment: 2.5%							
		No. of meetings held during the financial year in question: 9							

**NOTES**

- \* By date of first appointment of each director is meant the date on which the director was appointed for the first time (ever) to the Board of Statutory Auditors of the issuer
- \*\* 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 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.