

**Corporate governance  
and ownership structure**  
pursuant to article 123-*bis* of the Consolidated Law on Finance

**(2018 Financial Year)**



**Traditional administration and control model**

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

Financial year to which the Report refers: 1 January 2018 – 31 December 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 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civil Code/CC:** the Italian Civil Code.

**Board:** the Issuer's Board of Directors.

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

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

**Long-Term Incentive 2018-2020:** the “Long-Term Incentive 2018-2020 of Biesse S.p.A.” submitted for the screening and approval of the Remuneration Committee on 11/05/2018 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 regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as amended) concerning transactions with related parties.

**Report:** this corporate governance and ownership report that companies are required to draw up pursuant to art. 123-bis of the Consolidated Finance Act.

**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 TUF, published by Borsa Italiana S.p.A. in January 2019 (VIII edition).

This Report reflects the Issuer's corporate governance system and ownership structure at **31 December 2018**, with references to subsequent events until the date of its approval.

## 1. ISSUER PROFILE

### a) Operations

The Biesse Group operates in the market of machines and systems for processing wood, glass/stone and advanced materials. The Group offers modular solutions ranging from the design of "turnkey" systems for large-scale furniture manufacturers to individual automatic machines and work centres for small and medium businesses, up to the design and sale of individual high-tech components.

A multinational company with factories in Italy, India and China, today the Biesse Group markets its products through a network of subsidiaries and 39 branches located in what are considered to be strategic markets. The branch offices ensure specialised after-sales service to customers, while also carrying out market research aimed at developing new products.

The Biesse Group's mission is to provide technological solutions for the processing of wood, glass, marble and advanced materials with every-day uses, for companies associated with the furniture industry; as a global partner, provide reliable, cutting-edge solutions in addition to a specialist after-sales service that is quick, efficient and effective.

All the activities carried out by the Group are realized with an awareness of its moral and social responsibility towards all its stakeholders (employees, shareholders, customers, suppliers, communities, commercial and financial partners, institutions, trade associations, union representatives, etc.), in the belief that the achievement of the Group's objectives (the first of which is to give added value to shareholders, customers and the community in which it operates) must be accompanied, not only by respect for specific company values, but also by compliance with current regulations and the general duties of honesty, integrity, fair competition, fairness and good faith.

### b) Corporate Governance System

Biesse 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 set out in existing laws 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 has set up a Committee for the remuneration of Directors, an Audit and Risk Committee and a Related Party Committee.

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

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.

#### c) Information on the acquisition and maintenance of the SME status

The issuer falls within the parameters identified by article 1, paragraph 1, letter *w-quater* 1) of the TUF and by article 2-ter of the Consob Issuers' Regulation. On 21 December 2018 the Company submitted to Consob the information relating to its qualification as an SME, specifying the value of its capitalisation and turnover, as prescribed by resolution No 20621 of 10 October 2018.

tax identification number	company name	year end date if different from 31/12	first financial year	average capitalisation 2017	average capitalisation 2016*	average capitalisation 2015*	average capitalisation 2014*	2017 turnover**	2016 turnover**	2015 turnover**	2014 turnover**	turnover breakdown 2017/2018**	turnover breakdown 2016*	turnover breakdown 2015*	turnover breakdown 2014*
113220412	Biesse S.p.A.	/	2014	595,000.00	335,900.00	519,700.00	190,800.00	690,120.00	618,489.00	519,108.00	427,144.00	644,459.00 (sales of goods)	580,092.00 (sales of goods)	487,344.00 (sales of goods)	401,549.00 (sales of goods)
												44,661.00 (provision of services)	37,093.00 (provision of services)	30,822.00 (provision of services)	23,983.00 (provision of services)
												1,000.00 (sundry revenues)	1,304.00 (sundry revenues)	942.00 (sundry revenues)	1,612.00 (sundry revenues)

\* To be completed only for the years/financial years corresponding with and subsequent to the starting date

\*\* For companies that have completed the financial year and approved the related accounting data in the current year, the 2017 turnover refers to this last year. In this instance the turnover for the years 2016-2014 relates to the turnover for the three preceding financial years

## 2. OWNERSHIP INFORMATION (at 31/12/2018)

#### 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 €1 each.

<b>SHARE CAPITAL STRUCTURE</b>				
	<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	The shares are registered, freely transferable, indivisible, and each of them gives the right to one vote at the ordinary and extraordinary shareholders' meetings of the Company in accordance with the law and the Articles of Association (except for what is provided for in the Articles of Association on the increase of the voting right) and attribute the additional administrative and property rights provided for by law for shares with voting rights.

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

As at the date of this report, the Issuer had not issued any financial instruments convertible or exchangeable for shares.

The Company has not approved capital increases to service share-based incentive plans. The new long-term incentive plan called "Long-Term Incentive 2018-2020 of Biesse S.p.A." was approved by the Remuneration Committee on 11 May 2018. This plan provides for the payment of cash awards to the beneficiaries subject to the achievement of the Company's economic and financial objectives, therefore, not providing for the allocation of shares, pursuant to article 114-*bis* of the TUF, a resolution of the Shareholders' Meeting in this regard was not necessary, since a resolution of the Issuer's administrative body was deemed sufficient (14 May 2018).

**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 2018, 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 TUF and other available information, are listed in the table below:

<b>Declarant</b>	<b>Direct shareholder</b>	<b>% of ordinary share capital</b>	<b>% of voting share capital</b>
Selci Giancarlo	Bi.Fin S.r.l.	51%	51%
Groupama Asset Management S.A	Groupama Asset Management S.A.	5.1%	5.1%
Allianz Global Investor Gmbh	Allianz Global Investor Gmbh	5.008 %	5.008 %

**d) Securities that grant special rights**

The Issuer has not issued instruments that confer special rights.

During the year, the Issuer proposed the introduction of shares with increased voting rights in order to achieve, on the one hand, the stabilisation of control and, on the other, a shareholding that is more active in the management of investments and less attentive to speculative logics and short termism.

The proposal, submitted to the Shareholders' Meeting held on 24 April 2018, was accepted with a vote in favour and led to the modification of article 6 of the Articles of Association, with the introduction of the ad hoc regulation of shares with increased voting rights, an extract of which is available on the Issuer's website [www.biessegroup.com](http://www.biessegroup.com), in the section Investor Relations/Increased voting right. As a consequence, the Issuer has also fulfilled the obligation of maintaining a register of shares with increased voting rights, in which the shareholders who request it will be registered. The setting up of the register was ratified by a resolution of the Board of Directors on 14 May 2018 and its management was assigned to a third-party company by way of outsourcing.

As of the date of this report, only the shareholder Bi.Fin. Srl had applied to be entered on the list to be eligible for the increased vote rights, for its entire shareholding (amounting to 13,970,500 shares). A corresponding entry in the list took place on 18 May 2018. After 24 months from the date of registration, the voting rights of the shares registered on the list will be eligible for the increase, subject to notification by the depositary intermediary.

e) Employee share ownership: mechanism to exercise voting rights

The Issuer has not adopted any system of employee participation in its share capital or share-based incentive plans.

f) Restrictions on voting rights

There are no restrictions on the voting rights attaching to ordinary shares. The Issuer has issued ordinary shares only. During the course of the financial year shares were introduced having increased voting rights (cf. paragraph d) above).

g) Shareholder agreements

To the Company's knowledge, no shareholder agreements have been made pursuant to article 122 of the TUF.

h) Change of control clauses and provisions of the Articles of Association concerning take-over bids

During the year, the Issuer signed an agreement with BNL Group BNP Paribas for a medium-long term bilateral loan up to a maximum of €50 million, usable both for the ordinary and extraordinary activities (growth by external lines) of the Issuer.

The aforementioned agreement provides, as a result of the change of control clause contained therein, for the right of withdrawal on the part of the credit institution if Giancarlo Selci ceases to hold, directly or indirectly, 51% of the shares with the right to vote in the ordinary and/or extraordinary shareholders' meeting or, equally, in the event that Giancarlo Selci ceases to control Biesse.

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 TUF or application of the neutralisation rules provided for by article 104-*bis*, paragraphs 2 and 3 of the TUF.

i) Powers of attorney to increase 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.

At 31 December 2018, 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.

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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 TUF 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 by the public on the website of the Corporate Governance Committee at <https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>. This Report indicates whether the Company has decided not to implement specific recommendations contained in the Code, highlighting the reasons for the failure to comply with it and providing information on the process that led to the decision to deviate from it and any alternative course of conduct adopted.

In compliance with article 123-ter of the TUF and article 6 of the Corporate Governance Code, also taking into consideration what is stated 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 referred to in point 9 below).

With a view to protecting its values and to compliance in general, the Company has also decided to adopt an Antitrust Handbook (which will be referred to 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 intra group 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 3 August 2018 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 Handbook;
- Anti-bribery Code of Conduct

- Sustainability Policy.

In order to promote the market's broader knowledge of the governance model adopted by the Issuer, the documents indicated above (with the exception of the ICFR model) are available online (in Italian and English) on the website [www.biessegroupp.com](http://www.biessegroupp.com), 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 25th 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 21 days prior to the Shareholders' Meeting.

The Articles of Association lay down that Shareholders have the right to present these lists only if, on their own or together with other Shareholders, they represent at least 2.5% (two point five percent) of the share capital or if they hold a different minimum number of shares as established by Consob in its Regulations (it should be noted in this regard that, pursuant to Consob Executive Resolution No. 13 of 24 January 2019, the minimum percentage established by Consob for the 2019 financial year is 2.5%).

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, minus 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.

In the absence of a list, the Board of Directors is appointed by a Shareholders' Meeting with the majorities laid down by Italian 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 TUF, 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, no succession plans have been adopted 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 determined by the Shareholders' Meeting.

It should be noted that with the approval of the financial statements at 31 December 2017, the current Board of Directors expired, therefore on 24 April 2018 the Shareholders' Meeting was called on to reconstitute the Company's administrative body.

The Board in office at 31 December 2018, is composed of seven members, including 3 members belonging to the less represented gender. The mandates of all the directors in office expire with the approval of the financial statements at 31 December 2020. The seven members were appointed by a resolution of the Shareholders' Meeting of 24 April 2018 on the basis of (i) the list presented by the majority shareholder Bi.Fin. Srl, which was voted for by shareholders representing 13,970,500 shares equal to 51% of the share capital and (ii) the minority list jointly presented by the shareholders who were in no way related to the majority shareholder: "Aletti Gestielle SGR S.p.A." fund manager: Gestielle Pro Italia; Amundi Asset Management SGR.p.A., fund manager of: Amundi Valore Italia PIR and Amundi Dividendo Italia; Arca Fondi SGR S.p.A., fund manager of Arca Economia Reale Equity Italia; Eurizon Capital S.A., fund manager of: Eurizon PIR Italia 30, Eurizon Azioni Italia, Eurizon Progetto Italia 70, Eurizon Azioni PMI Italia, Eurizon PIR Italia Azioni, Eurizon Progetto Italia 20 and Eurizon Progetto Italia 40; Eurizon Capital S.A., fund manager of: Eurizon Fund - Equity Italy and Eurizon Fund - Equity Small Mid Cap Italy; Fideuram Asset Management (Ireland) fund manager of Fonditalia Equity Italy; Fideuram Investimenti SGR S.p.A., fund manager of: Piano Azioni Italia, Piano Bilanciato Italia 50 and Piano Bilanciato Italia 30 and Mediolanum Gestione Fondi fund manager of Mediolanum Flessibile Futuro Italia, which was voted for by shareholders representing 7,913,565 shares, equating to 28.8% of the share capital..

To be specific, the Board of Directors had four executive directors as at 31 December 2018:

- Giancarlo Selci, Chairman of the Board of Directors;
- Roberto Selci, CEO;
- Alessandra Parpajola, Director;
- Stefano Porcellini, Director and General Manager.

There are three independent non-executive directors as per the TUF and the Code:

- Giovanni Chiura, Independent Director (drawn from the minority list);
- Elisabetta Righini, Independent Director;
- Federica Palazzi, Independent Director.

It should also be noted that during the financial year two directors ceased to hold office when the Issuer's administrative body was reconstituted, they being the following:

- Cesare Tinti, Executive Director
- Salvatore Giordano, Independent Director

Term served by Directors since their initial appointment		
Directors	Date of initial appointment	Total number of years in office
Roberto Selci	2000	18
Giancarlo Selci	1994	24
Alessandra Parpajola	2005	13
Stefano Porcellini	2006	12
Elisabetta Righini	2015	3
Giovanni Chiura	2018	/
Federica Palazzi	2018	/

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 e 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. 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.

*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 Commercial Law and Financial Markets at the School of Economics at the University of Urbino, Commercial Law at the Fano campus of the School of Economics at the University of Urbino, and Commercial Law (first and second module) at the Law School at the University of Urbino. Author of a numerous legal and economic publications, since April 2013 she has been an Independent Director of Unipol Gruppo S.p.A. In 2018 she was a member of the Supervisory Body for the same company, as well as a member of the Related Parties Committee and of the Control and Risk Committee. As at 31/12/2018, Prof Righini did not own any Issuer shares.

*Giovanni Chiura*, born in Turin on 06/07/1965, Independent Director, holds a degree in Economics and Commerce from the Economics Faculty of the University of Turin. He currently holds the position of CFO of the company Sorigenia S.p.A., where he was also an Advisor to the Board of Directors from February 2014 to March 2015. During the course of the year, he was a member of the Board of Directors of the main subsidiary companies, including Tirreno Power S.p.A., Sorigenia Power S.p.A. and Sorigenia Puglia S.p.A. Mr Chiura held no shares in the Issuer as at 31/12/2018.

*Federica Palazzi*, born 28/01/1979, Independent Director, she graduated in Business Economics from the University of Urbino and is currently a researcher at the Department of Economics, Society and Politics of the Carlo Bo University of Urbino as well as Professor of Programming and Monitoring at the School of Economics (Fano site) of the Carlo Bo University of Urbino. In 2015 she won the "Best Junior Contribution to the Intangibles and IC Theory and Practice Award" from the European Institute for Advanced Studies in Management - EIASM, she is currently engaged in prestigious research projects also in collaboration with other universities nationally and internationally, and is the author of numerous economic-financial publications. As at 31/12/2018 Ms Palazzi did not possess any Issuer shares.

For all members of the Board of Directors, the assessments of their integrity and professionalism as required by current legislation were carried out at the Board meeting of 2 May 2018. More specifically, the members of the Board of Directors meet the integrity requirements <sup>1</sup>under article 148(4) of the TUF and the Regulation adopted by Decree No. 162 of the Ministry of Justice of 30 March 2000.

At the meeting of 2 May 2018, the directors Giovanni Chiura, Elisabetta Righini and Federica Palazzi confirmed that they fulfilled the independence requirements laid down in article 147-ter(4) of the TUF 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.

At its meeting of 12 May 2017, the Board of Directors resolved not to set general criteria on the maximum number of offices directors may hold on the boards of directors and auditors in other companies considered compatible with the effective running of the Board of Directors of the Company, considering this assessment to be primarily the responsibility of Shareholders in designating directorships and subsequently, of each director in accepting the appointment. However, if the Board deems it to be appropriate based on the information received from the directors (and in light of the body's self-assessment process), it may carry out a check on it using primarily the following evaluation 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 the Director in these organisations (with regard to, among other things, the organisation's corporate purpose, the governance structure, the number of meetings the director must attend as a result of his role, the responsibilities assigned to the directors, and any other mandates; (iii) whether these organisations are related to the Issuer's group. With regard to the Board in office at 31 December 2018, the Board itself, at its meeting of 2 May 2018, decided not to carry out the self-assessment process during the course of the Financial Year, since the body was only recently established and it was considered appropriate to wait a reasonable period of time before making an evaluation of its composition and its operation. A self-assessment process is expected to begin during the first half of 2019, at the end of which the Board will acquire the information necessary to assess whether the number of administration and supervisory positions held by its members in other companies may be considered compatible with the effective performance of the role of director of the Company.

The Board in office as at 31 December 2018 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 their evolution and of the reference legislative and self-regulatory framework (so-called *induction programme*) 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.

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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 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.

With reference to the composition of the Board in office at 31 December 2018, the Board of Directors did not consider it appropriate to adopt diversity policies with regards to matters such as age and educational and professional background, considering this assessment to be primarily the responsibility of the Shareholders in designating directorships and, subsequently, of each director in accepting the appointment; in terms of gender diversity, the Issuer applies the provisions of articles 147-*quater* and 148 of the TUF, and one third of the Board of Directors in office at 31 December 2018 consists of directors of the less represented gender. The Board will carry out an evaluation of its composition, with a view also to its diversity, as a result of the aforementioned self-assessment process to be carried out in 2019.

#### **4.3 ROLE OF THE BOARD OF DIRECTORS**

The Board of Directors is the central body of the Company's Corporate Governance system and is responsible for defining, applying and updating the rules of corporate governance, in compliance with the regulations in force, as well as determining the strategic management guidelines and top management of the Company and Group (understood as Biese and the companies under its control, in accordance with the definition provided by article 93 of the TUF).

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.

With a resolution of 2 May 2018, the Board of Directors was assigned a strategic and organisational role, in addition to responsibility for verifying the existence of the checks that are needed for monitoring the conduct of the Company and the Group as a whole.

The Board, as provided for by the Articles of Association and a resolution of 2 May 2018, 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 Shareholders' Meeting approved the remuneration of the directors at the Board meeting on 24 April 2018. At the recommendation of the Remuneration Committee, the Board assigned to the directors the remuneration approved at the Shareholders' Meeting. For more information, see paragraph 9.

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 12 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 2018, the Board of Directors held eight meetings, each lasting 120 minutes on average. For the financial year ending 31 December 2019, the Board of Directors has scheduled five meetings, one of which was held on 26 February 2019 to approve the 2019-2021 three-year plan of the Group.

The attendance percentage of each director in office at 31 December 2018 at the meetings of the Board of Directors is shown below (as detailed in Table 2 below): Roberto Selci 100%, Giancarlo Selci 62.5%, Alessandra Parpajola 75%; Stefano Porcellini 100%, Giovanni Chiura 100%; Elisabetta Righini 100% and Federica Palazzi 100%.

It should be noted that, in relation to the number of meetings held during their actual period of office, outgoing directors Cesare Tinti and Salvatore Giordano had a 100% attendance percentage.

The assessment of the requisites of professionalism, integrity and independence of the members of the Board of Directors and of the committees was carried out with a positive outcome by the Board of Directors on 2 May 2018, at the time of its inauguration.

Due to the new appointment of the Board of Directors, for reasons of expediency, the newly inaugurated body decided to postpone the self-assessment of its own mode of functioning in relation to: the characteristics of its members in terms of their professionalism, experience, managerial experience and gender, as well as their length of time in office.

During the year, the Board did not specifically evaluate the adequacy of the Issuer's organisational, administrative and accounting setup prepared by the CEO during 2018, since it had not undergone significant changes during the previous year in comparison with the existing structure, and had already been the subject of an evaluation by the Board in its session of 12 May 2017, and in consideration of the fact that the Board was newly constituted.

During the year, the Board did not specifically evaluate the adequacy of the organisational, administrative and accounting structure of the subsidiary companies, no specific requirement having arisen in that regard, since it had not undergone significant changes during the previous year in comparison with the existing structure (having already been the subject of an evaluation by the Board in its session of 12 May 2017) and in consideration of the fact that the Board was newly constituted.

At its meeting on 15 March 2019, the Board began the process of assessing the organisational, administrative and accounting structure of the Company and of the larger companies.

On the same date, the Board carried out an assessment of the adequacy, effectiveness and effective functioning of the internal control system, based on the activities carried out and reported by the Control and Risk Committee.

For Board meetings, directors are provided with the documents and information needed by the Board in order to discuss the issues examined. In any event, the Chairman ensures that specific and appropriate clarification is given at Board meetings. Achille Marchionni participates at Board meetings in the capacity of secretary. On 2 May 2018 he was confirmed as the permanent secretary of the Board of Directors for the entire duration of the mandate of the administrative body currently in office.

In addition to the secretary, the following directors normally attend board meetings as guests: the Group CFO Cristian Berardi, the Group Finance Director Alberto Amurri and the Head of the Legal Affairs Office of the Group Elena Grassetti.

Specifically, Mr Berardi and Mr Amurri attended the meeting on 09/02/2018, regarding the approval of the project to obtain a listing for the subsidiary HSD S.p.A.; the meeting of 28/02/2018 regarding the analysis and approval of the Group's 2018/2020 three-year plan; the meeting of 14/05/2018 regarding the approval of the Group's quarterly report as at 31/03/2018 and the setting up of the register for shares with increased voting rights; the meeting of 03/08/2018 regarding the approval of the Group's half-year report as at 30/06/2018; the meeting of 31/08/2018 regarding the suspension of the IPO project for the subsidiary HSD S.p.A.

In addition to the above, Mr Berardi also participated in the meeting of 12/03/2018 regarding the approval of the company's financial statements, the approval of the draft financial statements of Biesse S.p.A. and of the Group's 2017 consolidated financial statements and the meeting of 31/10/2018 regarding the approval of the Group's consolidated financial statements as at 30/09/2018. The aforementioned meetings were also attended by Domenico Ciccopiedi as Group CAE, in order to approve the 2017 Non-financial Declaration, update the Organisation, Management and Control Model pursuant to Legislative Decree 231/01 in the light of the new regulations introduced during the year, including in particular the so-called Whistleblowing (Law 179 of 30/11/2017), and to illustrate to the Board the Annual Report of the Supervisory Body on the activities carried out in 2017.

Finally, Elena Grassetti, as Head of the Legal and Insurance Affairs Office, attended the meeting on 02/05/2018, which also resolved on the verification of the requirements of professionalism and integrity of the members of the Board.

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

#### **4.4 AUTHORISED BODIES**

On the basis of the powers conferred at the meeting of 2 May 2018, the Board of Directors reserved to themselves the powers regarding the following matters:

- a. Start-up of new businesses.
- b. Opening or closing factories, branches, remote facilities, sales offices and the like.
- c. Acquiring or disposing of shareholdings, branches or companies and the like.
- d. Stipulation of agreements with third parties of strategic importance (alliances, associations, joint ventures, long-term cooperation, etc.).

e. Purchase or sale of real estate (land and buildings) and associated rights; establishment of guarantees on immovable property such as, by way of example only, the granting of mortgages, privileges and guarantees.

f. Issuing of sureties in the interest of third parties and for reasons other than those of commercial management and granting of privileges on movable assets, issuing guarantees and granting loans; this limit will not be effective for transactions involving the acceptance and endorsement of credit instruments.

g. Stipulation of contracts that create a situation of conflict of interest between the Company and its directors, internal auditors or managers. A conflict of interest is presumed, in particular, if the other party to the contract is a relative either direct or by marriage of directors, auditors or managers of the Company, or is a Company or entity with direct or indirect links to such relatives.

h. Stipulating, substantially modifying or terminating contracts which, due to their possibly stifling competition by their nature or content, may be subject to notification to the competent national or international anti-trust authorities.

The main powers attributed to the directors in this meeting are set out below. An Executive Committee has not been appointed.

#### Chairman of the Board of Directors

The Chairman of the Board of Directors, Giancarlo Selci, due to the size of the company and the activities of the same, as well as the many years of knowledge and experience acquired in managing the Group, with a resolution of the Board of Directors adopted on 2 April 2018, has been delegated all powers of ordinary administration, including therein the power to manage relations with credit institutions and all the signatory powers necessary for the lodging of tax returns of all kinds, human resources management, the purchase and sale of motor vehicles and capital goods registered in public registers, the subscription and negotiation of bills of exchange issued pursuant to Law No. 1329 of 28 November 1965 (so-called "Sabatini Act") and leasing contracts. 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).

The Chairman, Giancarlo Selci, also controls Bi.Fin S.r.l. and therefore controls the Company.

#### Chief Executive Officers

The CEO Roberto Selci, in a resolution dated 2 May 2015, was given the legal representation of the Company at any public and private office and before any judicial authority, as well as the attribution of powers in matters of the definition of strategy and the general coordination of Group policies, for the preparation of the annual budget to be submitted to the Board of Directors, the definition of the functional structures of the Company and of the subsidiaries within the framework of the general organisational guidelines established by the Board, the setting of the criteria for recruitment and general management of personnel in compliance with the annual budget. The CEO is in charge of the ordinary administrative and commercial management of the company, including the management of relations with credit institutions.

The CEO has also been assigned the duties and responsibilities pursuant to Italian Legislative Decree 19 September 1994, No 626, as well as Legislative Decree 9 April 2008 No 81 as amended concerning the health and safety of workers in the workplace, all with the power to delegate; in particular, the CEO was given the legal role of "Employer" pursuant to and for the purposes of article 2 of Italian Legislative Decree 19 September 1994 No 626 and of article 2 of Italian Legislative Decree 9 April 2008 No 81 as amended, with the duties laid down therein with the power to delegate, to the extent permitted by law, the performance of any useful and/or necessary activity aimed at ensuring compliance with the law.

Finally, the CEO was assigned the authority and responsibilities, with the power of delegation, as per Legislative Decree No 196 of 30 June 2003, and any subsequent supplementary and/or amending regulations, concerning the protection of persons and other bodies in connection with the processing of personal data.

Based on the granted powers Roberto Selci can be considered one of the Chief Executive Officers of the Company.

No interlocking directorate are present included in application criterion 2, paragraph 5 of the Code.

#### Executive directors

Again with a resolution dated 2 May 2015, it was confirmed that the director Alessandra Parpajola was given authority with regard to: 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.

A resolution dated 2 May 2018 confirmed the existing power of attorney granted to the director Stefano Porcellini, as well as granting him the powers of ordinary administration and a specific authorisation for the monitoring and supervision of the Italian and foreign subsidiaries assigned to him as General Manager of the Group. On the same occasion, special tasks and related powers were conferred on him, with the legal representation of the same, in connection with relations with credit institutions, lawyers and professionals in general, the supervision and directing of the operating divisions of the Group and of the centralised functions (with the exception of the functions that report directly to the CEO), to the representation of the company at any public and private office and before any judicial authority, with the right to arrange conventional sequestrations, as well as the right to request judicial seizures and settle disputes.

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 compliance with principle 3.C.3 of the Code, has three independent directors who are Giovanni Chiura, Prof Elisabetta Righini and Federica Palazzi.

The independent directors are such, based on the provisions of the TUF and the Code, because:

- they are not in one of the situations provided for in article 148 (3) of the TUF;
- 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 out of the last 12 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 existence of the independence requirements of each of the independent directors was assessed, in compliance with all the criteria provided for by the TUF and the Code, on the occasion of the meeting of 2 May 2018, the first meeting after the reconstitution of the Board. A press release containing the information regarding the assessment of independence was released on the market on the same date.

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 2018. These directors bring their specific competencies to Board discussions and contribute to decisions being made in the Company's interest. They confirmed their suitability to qualify as independent directors at the time of presenting the lists for the reconstitution of the Board and also committed themselves to maintaining their independence throughout their mandate.

The Independent Directors did not, during the 2018 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.

Following the changing of the members of the Issuer's administrative body, this role was held until 24 April 2018 by the Independent Director Salvatore Giordano and, starting from the new Board of Directors, by the Independent Director Elisabetta Righini, appointed by resolution of 2 May 2018. 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 2018, 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**

External communications of documents and information regarding the Company or/and the Group, with particular attention to so-called "Price sensitive", inside information, are regulated by a procedure, approved by the Board of Directors in the meeting of 27 March 2006, as amended (the last time on 3 August 2018) following the entry into force of European Regulation No 596/2014 (so-called Market Abuse Regulation, hereinafter "MAR"). This regulation ensures 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 Register to be set up of individuals having access to inside information. Following the publication of the new Consob Guidelines of October 2017 on inside information, the Company decided to update its regulations. 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. This procedure is available on the Company's web-site, [www.biessegroup.com](http://www.biessegroup.com), on the "Corporate Governance" page in the Investor Relations section.

### **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.biessegroup.com](http://www.biessegroup.com), on the "Corporate Governance" page in the Investor Relations section.

### **Antitrust Handbook**

At the Board of Directors meeting on 11 November 2011, the Company approved the adoption of an "Antitrust Handbook", 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**

By means of a resolution dated 2 May 2018, the Board of Directors, as reconstituted on 24 April 2018, formed a committee that performs the functions laid down by the Code for the Control and Risk Committee, the Committee for transactions with related parties and the Remuneration Committee, each composed 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:

- Elisabetta Righini, Independent Director and Chair of the Remuneration Committee;
- Federica Palazzi, Independent Director.

It should be noted that, until 24 April 2018, the Committee was composed of the independent Director Salvatore Giordano - who also held the role of Chairman of the Remuneration Committee - and by the independent Director Elisabetta Righini.

The Board of Directors considered, when appointing the members of the Remuneration Committee, that the director Federica Palazzi had adequate knowledge and experience in accounting and finance.

The Committee has the task to (i) submit to the Board proposals for the definition of the general policy for the remuneration of CEOs, 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 as call upon external consultants under the terms established by the Board of Directors.

During the year, the Committee met twice on 12 March 2018 (in its composition prior to the reconstitution of the administrative body) and 11 May 2018 and on these occasions it was required to make a comparison between the current remuneration of the executive directors/strategic managers of the Company and what is laid down in the provision of the Remuneration Policy approved in 2011, as subsequently amended. At the end of the meeting of 11 May 2018, the Committee concluded that it was not necessary to amend the Remuneration Policy for 2018.

As in previous years, no financial resources were allocated to the Committee since, in order to fulfil its duties, it used 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 TUF, 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 defining the remuneration of key management of Biesse and the Group designed to attract, retain and motivate those with the professional skills needed to successfully manage the Company and the Group and ensure that the interests of key personnel are aligned with the pursuit of the objective of creating sustainable value for shareholders in the medium to long term.

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

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

It should be noted that, even prior 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 Biesse 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).

The new long-term incentive plan called "Long-Term Incentive 2018-2020 of Biesse S.p.A." was approved by the Remuneration Committee on 11 May 2018 and, being an exclusively monetary incentive plan without the assignment of shares, pursuant to article 114-bis of the TUF, a resolution of the Shareholders' Meeting in this regard was not necessary, since a resolution of the Issuer's administrative body (14 May 2018) was deemed sufficient.

This plan provides for the payment of cash bonuses to the beneficiaries subject to the reaching of economic and financial targets by the Company (cash flow objectives and EBITDA).

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

For further information on the Biesse remuneration policy, please refer to the corresponding Report pursuant to article 123<sup>ter</sup> of the TUF, 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.



#### **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 2018 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:

- Elisabetta Righini, Independent Director, Chair of the Remuneration Committee;
- Federica Palazzi, Independent Director.

The aforementioned Directors have experience, respectively, in risk management and in accounting and financial matters, deemed adequate by the Board at the time of their appointment.

It should be noted that, until 24 April 2018, the Committee was composed of the Independent Director Salvatore Giordano - who also held the role of Chairman of the Control and Risk Committee - and by the Independent Director Elisabetta Righini.

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 four meetings (one of which was held by the Committee before the reconstitution of the administrative body on 24 April 2018), regularly minuted, with an average duration of sixty minutes. The meetings were always attended by all the Committee members.

Both the Directors, Elisabetta Righini and Federica Palazzi (in connection with the meetings following the reconstitution of the administrative body on 24 April 2018) took part in 100% of the Committee's meetings. The outgoing Chairman, Salvatore Giordano, in relation to the number of meetings held during his actual period in office, achieved an attendance record of 100%.

The Board has four meetings scheduled in 2019, one of which was held in March.

The Chairman of the Board of Internal Auditors and the Standing Auditors, as well as the Internal Audit Manager, Domenico Ciccopiedi, attended the meetings of the Control and Risk Committee.

In carrying out its duties in 2018, 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 perform its functions, the Control and Risk Committee was provided with the human resources deemed adequate for the activities to be carried out. 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.

During 2018 the Board of Directors evaluated the adequacy, efficiency and effectiveness of the control system in consideration of the verifications carried out in this regard by the Control and Risk Committee.

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:

- First level: operational functions identify and assess risks and define specific actions for their management;
- Second level: functions responsible for controlling risks define risk management methodologies and tools and carry out risks monitoring activities;

- Third 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 Executive 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, Domenico Ciccopiedi, was 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 2018 amounted to €80,000.00 (eighty 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 the subject of these audits: Dongguann Korex Machinery Co. Ltd., Biesse Deutschland GmbH, HSD Deutschland GmbH, Biesse America Inc., Biesse Canada Inc., HSD Mechatronics (Shanghai) Co. Ltd., Viet Italia S.r.l., HSD Mechatronics Korea LLCd., Biesse Manufacturing Pvt Ltd., HSD USA Inc., and Biesse Group Australia Pty Ltd.

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 2018, 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; 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; implementation of the Non-Financial Declaration reporting process pursuant to Italian Legislative Decree 254/2016 and preparation of Biesse Group Sustainability Report; management of activities related to Anti-corruption and Antitrust compliance.

### **11.3 ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001 AND THE 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. This 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 Biesse's Organisation, Management and Control Model pursuant to Italian Legislative Decree of 8 June 2001 No 231 (hereinafter the "Model"), approved by the Board of Directors in 2007 and containing provisions on the administrative Responsibility of its entities.

On the proposal of the Supervisory Body, on 30 October 2018, the Board of Directors approved the latest version of the Model, modified in both the general and in the special sections in order to incorporate the following cases, within the framework of the predicate offences pursuant to Leg. Decree 231/01:

- Illicit brokering and exploitation of labour (article 25-*quinquies*, paragraph 1, letter a of Italian Legislative Decree 231/2001);
- Crimes related to immigration and the condition of foreigners (article 25-*duodecies* of Italian Legislative Decree 231/01);
- Racism and xenophobia (article 25-*terdecies* of Italian Legislative Decree 231/01);
- Whistleblowing: introduced by Italian Law No 179 of 30 November 2017, Official Journal No 219 of 14 December 2017.

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.

A Supervisory Body was also set up, consisting of the Chairman, Giuseppe Carnesecchi, appointed on 3 August 2018, the Head of the Biesse Legal Affairs Office and the Head of the Biesse Internal Auditing Office, with the task of:

- 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.

The Model, as well as the Code of Conduct, are available on the company's website at [www.biessegroup.com](http://www.biessegroup.com), 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 predefined 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 the report on corporate governance.

At the meeting of 3 August 2012, following the prior approval of the Control and Risk Committee, the company adopted the Policy for managing risks/opportunities (or ERM, Enterprise Risk Management). 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 an assurance role regarding the adequacy of the internal monitoring 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. The document was drafted taking inspiration from the main benchmarks on Enterprise risk management, in particular the COSO Enterprise Risk Management framework. Adopting adequate and modern tools in this field will allow the internal functions to adequately structure the process, also with the aim of internally sharing in-depth knowledge about the management of risks/opportunities able to ensure a more strategic/preventive (rather than the typical reactive) approach.

The ERM process is structured in 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, Biesse believing it to be essential to work towards this goal by increasing the safeguards set up to protect the integrity of information intended for shareholders, the Company

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 the Biesse Group 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 sub-processes identified in the scoping phase are not invalidated by irregularities, errors or omissions not detected by the internal monitoring 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 checked by the Group Internal Audit function and any changes must be approved by the Control and Risk Committee.

## **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 the FY 2010 up to 2018, concurrently setting its compensation and the criteria for adjustment of these fees throughout the contract term.

In anticipation of the conclusion of the mandate scheduled for the end of the financial year, during 2018 the Issuer carried out an invitation to tender for the awarding of the new audit assignment, pursuant to article 159 of Italian Legislative Decree 58/98, for the period 2019-2027. On 20 June 2018, the Shareholders' Meeting, following the opinion of the Board of Internal Auditors and the Board of Directors on 14 May 2018, resolved to award Deloitte S.p.A. the assignment of independent auditors for the aforementioned period, establishing the relative remuneration.

## **11.6 FINANCIAL REPORTING OFFICER**

On 2 May 2018, 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) of 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 purposes 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 two meetings, with minutes taken as required, lasting an average of 45 minutes. All members participated in those meetings. One meeting is planned in 2019.

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), in the 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 specify that the Board of Internal Auditors be made up of three standing auditors and two substitute auditors and that nomination is based on the candidate lists filed by Shareholders representing at least 2% (two percent) of the voting stock in the Shareholders' Meeting or another minimum percentage laid down by Consob Regulations (for 2019, as established by Consob Executive Resolution No 13 of 24 January 2019, the minimum percentage established by Consob for the 2019 financial year is 2.5% - it should be noted that in any case the lower percentage laid down in the Articles of Association applies). 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), TUF)**

With the approval of the financial statements at 31 December 2017, the current Board of Internal Auditors expired, therefore on 24 April 2018 the Shareholders' Meeting was called on to reconstitute the Company's Supervisory Body.

The current Board of Auditors will remain in office until the approval of the financial statements for the year ending 31 December 2020. The members of the Board of Internal Auditors were appointed on the basis of (i) the list presented by the majority shareholder Bi.Fin. S.r.l and (ii) of the minority list jointly presented by "Aletti Gestielle SGR S.p.A.", fund manager of: Gestielle Pro Italia; Amundi Asset Management SGR.p.A., fund manager of: Amundi Valore Italia PIR and Amundi Dividendo Italia; Arca Fondi SGR S.p.A., fund manager of Arca Economia Reale Equity Italia; Eurizon Capital S.A., fund manager of: Eurizon PIR Italia 30, Eurizon Azioni Italia, Eurizon Progetto Italia 70, Eurizon Azioni PMI Italia, Eurizon PIR Italia Azioni, Eurizon Progetto Italia 20 and Eurizon Progetto Italia 40; Eurizon Capital S.A., fund manager of: Eurizon Fund - Equity Italy and Eurizon Fund - Equity Small Mid Cap Italy; Fideuram Asset Management (Ireland) fund manager of Fonditalia Equity Italy; Fideuram Investimenti SGR S.p.A., fund manager of: Piano Azioni Italia, Piano Bilanciato Italia 50 and Piano Bilanciato Italia 30 and Mediolanum Gestione Fondi, manager of the Mediolanum Flessibile Futuro Italia fund, holding a total of 1.4046% of the Issuer's share capital.

It should also be noted that during the financial year four auditors ceased to hold office when the Issuer's Supervisory Body was reconstituted, they being the following: Giovanni Ciurlo, Riccardo Pierpaoli, Cristina Amadori and Nicole Magnifico (substitute auditor), none of whom held shares in the Company.

The Board of Statutory Auditors held sixteen meetings in 2018, each lasting an average of six hours.

As at the date of preparation of this Report, nine meetings have been scheduled for the first half of the year 2019.

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:

Paolo De Mitri (Chairman), born in Milan, on 14/10/1963, obtained the qualification of accountant and commercial expert in 1982. He has been on the Register of Practitioners of the Professional Association of Chartered Accountants and Accounting Experts of the Province of Mantua since 1987 at number 215, Section A; in the Register of Arbiters, Arbitrators and Contract Experts of the Arbitration Board of Mantua since 1994; in the register of consultants to the judge in the categories: auditors, companies, company and asset valuations and taxation since 1993; in the register of auditors at No 18347. He currently holds the position of Chairman of the Board of Internal Auditors and of Standing Auditor in various companies engaged in management activities (holding companies), financial intermediation and the manufacture of machine tools and mechanical equipment. From 8 May to 31 December 2018 he served as Chairman of the Board of Internal Auditors of BPER BANCA S.p.A.

As at 31 December 2018 he does not possess shares of the Issuer

Claudio Sanchioni (Standing Auditor), born in San Costanzo (PS) on 09/09/1958, he graduated in Economics and Commerce on 21/02/1984 at the University of Ancona and was enrolled in the Register of Chartered Accountants of Pesaro and Urbino on 2/10/1984 at No 67, then moved to No 103 A from 1/1/2008, and in the Register of Official Accounting Auditors according to a Ministerial Decree dated 12/4/1995. 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, Director of the Board of Chartered Accountants of Pesaro-Urbino and Chairman of the Protection Committee.

As at 31/12/2018, Mr Sanchioni owns 200 Issuer shares.

Silvia Cecchini (Standing Auditor), born in Petriano (PU) on 28 March 1960, with a first-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 at Urbino.

As at 31/12/2018 she does not possess any Issuer shares.

Silvia Muzi (Substitute Auditor), born in Rome on 07/18/1969, graduated in Economics and Commerce at La Sapienza University of Rome. Since 1999 she has worked as a Chartered Accountant and Accounting Expert, an Auditor and a UNCI-accredited Auditor. She holds the position of Chair of the Board of Internal Auditors of the Company Cementir Holding S.p.A., a company listed in the Star segment and of the Company Rai Way S.p.A., listed in the MTA segment.

As at 31 December 2018, he does not possess any Issuer shares.

Dario De Rosa (Substitute Auditor), born in Savona on 07/09/1965, holds a degree in Business Economics from Bocconi University and is a Chartered Accountant. On the Register of Auditors since 1995, he works as a Chartered Accountant specialising in business, tax, corporate, business planning and management control consultancy. Technical consultant to the Court of Pesaro in both civil and criminal corporate matters, he holds the position of member of the Board of Internal Auditors and auditor in several private companies.

As at 31 December 2018, he does not possess any Issuer shares.

The meeting attendance record of the new auditors in 2018 was as follows: Paolo De Mitri: [100%]; Claudio Sanchioni: [90.9%]; Silvia Cecchini: [100%].

At the date of approval of this Report, the annual self-assessment of its composition and operation based on criteria and methods consistent with its own characteristics is being finalised for the 2018 financial year.

The process should, within reason, be completed by 20 March 2019.

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 of Statutory Auditors 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 2018, the Issuer did not consider it appropriate to adopt a diversity policy for aspects such as age, gender, education and professional background, since: (i) the provisions of article 148 of the TUF on gender equality were applied for the election of the board, (ii) the requisites of professionalism called for by the applicable laws and regulations are already required for the election of the Board of Internal Auditors.

## **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 internal 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.biessegroupp.com](http://www.biessegroupp.com)).

In 2018, 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, the Organisation and Management Model and the Sustainability Report ([www.biessegroupp.com](http://www.biessegroupp.com) - section "Investor Relations"). The documentation will remain available on the site for at least five years.

## **16. SHAREHOLDERS' MEETINGS**

The legally constituted Shareholders' Meeting represents the universality of the Shareholders 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 set out in existing laws 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 regulations for the meetings can be viewed in the specific section of the website [www.biessegroupp.com](http://www.biessegroupp.com).

During the course of the 2018 financial year, Shareholders' Meetings were held on the following occasions:

- on 24 April 2018, on the second call, the meeting was called upon to reconstitute the Issuer's administrative and supervisory bodies, as better set forth in sections 4.2 and 14 of this Report, as well as to approve the introduction of the increased voting rights. Participating in this Meeting were 5 directors belonging to the

administrative body that lapsed with the approval of the financial statements for the year ending 31/12/2017 (Roberto Selci, Alessandra Parpajola, Stefano Porcellini, Elisabetta Righini and Salvatore Giordano) and two internal auditors belonging to the supervisory body that lapsed on the same date (Riccardo Pierpaoli and Cristina Amadori).

- on 20 June, it was called to resolve on the appointment of new external auditors for the period 2019-2027, as better detailed in paragraph 11.5 above. The Meeting was attended by three directors belonging to the administrative body currently in office (Stefano Porcellini, Elisabetta Righini and Federica Palazzi) and an internal auditor belonging to the supervisory body currently in office (Silvia Cecchini).

On both occasions, the Board reported to the Meeting 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 the reports required by applicable laws and regulations.

During 2018, 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 21 DECEMBER 2018 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. With regard to the letter of 21 December 2018 addressed by the Chairman of the Corporate Governance Committee to the Chairmen of the Boards of Directors of the listed companies, it should be noted that the recommendations contained therein were illustrated and discussed in the presence of the members of the Board of Internal Auditors on 19 February 2019 and are already largely being followed by the Issuer. With reference to the adequacy of the pre-meeting information it is hereby specified that the Company has already undertaken an improvement process that it intends to complete by the 2019 financial year.

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

There were no other changes taking place subsequent to 31/12/2018.

#### **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><i>SHARE CAPITAL STRUCTURE</i></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><i>OTHER FINANCIAL INSTRUMENTS</i></b> <b><i>(conferring the right to subscribe to newly issued shares)</i></b>				
	<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><i>SIGNIFICANT EQUITY INVESTMENTS IN THE SHARE CAPITAL</i></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**  
**as of 31 December 2018**

													Control and Risk Committee (CCR)		Remuneration Committee (CR)		Appointments Committee, if any		Executive Committee, if any		Related Parties Committee (CPC)	
Office	Members	Year of birth	Date of first appointment*	In office from	In office until	List (M/m) **	Exec.	Non-exec.	Independent pursuant to the Code	Independent pursuant to TUF	(%) ***	No. other offices ****	** ** *	***	*** **	***	*** **	** *	*** **	** *	* * * *	***
Chair.	Selci Giancarlo	1936	1994	24/4/18	Approval of the financial statements as at 31/12/18	M	x				62.5	/										
MD	Selci Roberto	1960	2000	24/4/18	Approval of the financial statements as at 31/12/18	M	x				100	/										
Director	Parpajola Alessandra	1973	2005	24/4/18	Approval of the financial statements as at 31/12/18	M	x				75	/										
Director	Porcellini Stefano	1965	2006	24/4/18	Approval of the financial statements as at 31/12/18	M	x				100	/										
Director	Chiura Giovanni	1965	2018	24/4/18	Approval of the financial statements as at 31/12/18	m		x	x	x	100	3										
LID	Righini Elisabetta	1961	2015	24/4/18	Approval of the financial statements as at 31/12/18	M		x	x	x	100	1	x	100	x	100					x	100
Director	Palazzi Federica	1979	2018	24/4/18	Approval of the financial statements as at 31/12/18	M		x	x	x	100	/	x	100	x	100					x	100
-----DIRECTORS LEAVING OFFICE DURING THE YEAR -----																						
Director	Tinti Cesare	1968	2012	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x				100	/										
Director	Giordano Salvatore	1950	2006	30/04/2015	Approval of the financial statements as at 31/12/2017	M		x	x	x	100	1	x	100	x	100						
Note the quorum required for filing the lists at the last appointment: 2.5%																						
No. of meetings held during the financial year in question:								B.o.D.: 8		CCR: 4		RC: 2		CN:/		CE:/		CPC:2				

**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**  
**as of 31 December 2018**

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	Paolo De Mitri	1963	2018	24/04/18	Approval of the financial statements as at 31/12/20	m	x	100	1
Standing Auditor	Silvia Cecchini	1960	2011	24/04/18	Approval of the financial statements as at 31/12/20	M	x	100	/
Standing Auditor	Claudio Sanchioni	1958	2018	24/04/18	Approval of the financial statements as at 31/12/20	M	x	90.9	/
Alternate Auditor	Dario De Rosa	1965	2018	24/04/18	Approval of the financial statements as at 31/12/20	m	x	/	/
Alternate Auditor	Silvia Muzi	1969	2018	24/04/18	Approval of the financial statements as at 31/12/20	m	x	/	2
-----AUDITORS LEAVING OFFICE DURING THE YEAR -----									
Standing Auditor	Giovanni Ciurlo	1960	2000	30/04/2015	Approval of the financial statements as at 31/12/2017	M	x	100	27
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
		Note the quorum required for filing the lists at the last appointment: 2%							
		No. of meetings held during the financial year in question: 16							

**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 TUF. 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 TUF.