



**Report on Corporate Governance  
and Ownership Structure  
2012 Financial Year**

Pursuant to art. 123-bis of the Consolidated Finance Act

**[www.gefran.com](http://www.gefran.com)**

Approved by the Board of Directors on 13<sup>th</sup> March 2013

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## GLOSSARY

**Code or Code of Conduct:** the Code of Conduct for listed companies approved in December 2011 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

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

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

**Issuer:** the Company issuing the securities to which this Report refers.

**Financial year:** the financial year to which this Report refers (2012).

**CONSOB Issuers Regulation:** the regulation issued by CONSOB under resolution no. 11971 of 1999 (as amended) on issuing companies.

**CONSOB Regulation on Markets:** the regulation issued by CONSOB under resolution no. 16191 of 2007 (as amended) on markets.

**CONSOB Regulation on Related Parties:** the regulation issued by CONSOB under resolution no. 17221 of 12<sup>th</sup> March 2010 (as amended) on transactions with related parties.

**Report:** the report on corporate governance and ownership structure that companies are required to draw up in accordance with art. 123-bis of the Consolidated Finance Act (TUF).

**Consolidated Finance Act or TUF:** Legislative Decree no. 58 of 24<sup>th</sup> February 1998.

## 1. PROFILE OF THE ISSUER

Gefran S.p.A. is a leading manufacturer of components for automation and industrial process control systems.

The Gefran Group currently has a global workforce of around 900, operates directly in 14 countries and has 8 production sites. The group is involved in three main business areas: industrial sensors, components for automation and drives for the electronic control of electric motors, and photovoltaic inverters.

Gefran S.p.A. has been listed in the Milan Stock Exchange since 1998 and in the STAR segment for High Requirement Shares since 2002.

In January 2013, Gefran was one of the 78 Lombardy-based companies that received awards for their “best practices” with regard to corporate social responsibility.

The purpose of this initiative, which is organized by the Lombardy Chamber of Commerce, is to reward and enhance the visibility of enterprises that have voluntarily undertaken activities having a positive impact on society and the environment. Gefran

has been honoured for over thirty good practices implemented in favour of the environment and employment and for the benefit of the community and the market.

Gefran adopts the traditional **model of administration and control**, with a general Shareholders’ Assembly, a Board of Directors and a Board of Auditors. The Corporate Governance System is based on the fundamental role of the Board of Directors (the highest body responsible for running the Company in the interests of the shareholders), transparency in the decision-making process, an efficient internal control system, the scrupulous regulation of potential conflicts of interest, and suitable rules of conduct for transactions with related parties.

The **Board of Directors** is invested with full powers for the ordinary and extraordinary running of the Company, the only exception being those reserved by law for the general assembly.

The Board of Directors also has powers to pass resolutions in the following cases, subject to legal limitations:

- mergers according to arts. 2505 and 2505-bis of the Civil Code;
- set-up and suppression of secondary offices;
- capital decrease in the event of a shareholder’s withdrawal;
- adjustments of the Articles of Associations and the Regulation on General Assemblies to comply with regulatory provisions;
- transfer of the registered office within Italy.

The Board of Directors has also set up an Internal Control and Risk Management Committee and a Remuneration Committee, both of which have advisory and consulting functions.

The **General Assembly** is the body representing all the shareholders. It passes ordinary resolutions to approve the annual financial statements, appoint the members of the Board of Directors and the Board of Auditors, determine the directors' and auditors' fees and appoint the statutory auditing firm, as well as extraordinary resolutions on operations of an extraordinary nature, such as changes to the Articles of Association, capital increases, mergers, splits and so on, that the Articles of Association do not reserve for the Board of Directors.

The **Board of Auditors** is the body that ensures compliance with the law and the articles of association, adoption of the principles of sound administration, and the appropriateness of the internal control system, and the organizational, administrative and accounting structure and its effective operation.

As required by law, audits are entrusted to a specialized Company that is registered with CONSOB and appointed by the General Assembly.

The **Auditing Firm** is an independent controlling body that is tasked with verifying correct accounting during the financial year and correct reporting of business activities in the accounting records. It is also responsible for ascertaining that the consolidated financial statements accurately reflect the accounting records and assessments conducted, and that the accounting documents comply with the rules governing them.

## 2. OWNERSHIP STRUCTURE AS AT 31/12/2012 (art.123–bis, subsection 1, TUF)

### a) **Share capital make-up (art. 123-bis, subsection 1, letter a), TUF)**

On 31 December 2012 the subscribed and paid-up capital amounted to €14,400,000.00, divided into 14,400,000 ordinary shares, each of a nominal value of €1.00. No further financial instruments have been issued.

### b) **Restrictions on the transfer of securities (art. 123-bis, subsection 1, letter b), TUF)**

Shares are free in that there are no:

- restrictions on the transfer of securities;
- securities entailing special rights of control;
- restrictions on voting rights;
- statutory provisions on public takeover bids.

### c) **Significant shares of capital (art. 123-bis, subsection 1, letter c), TUF)**

For details of significant shares of capital (shareholders owning over 2% of Gefran share capital), please refer to Table 1 annexed to this Report.

This information is based on the entries in the stock-ledger and the details available following shareholders' communications under art. 120 TUF, as at 31 December 2012.

**d) Securities carrying special rights (art. 123-bis, subsection 1, letter d), TUF)**

Gefran S.p.A has not issued any securities conferring special rights of control.

**e) Employee shareholding scheme: mechanism for exercising voting rights (art. 123-bis, subsection 1, letter e), TUF)**

There are no mechanisms for exercising voting rights under employee stock scheme, when the voting right is not exercised directly.

**f) Restrictions on voting rights (art. 123-bis, subsection 1, letter f), TUF)**

None.

**g) Shareholder agreements (art. 123-bis, subsection 1, letter g), TUF)**

Gefran is aware of a shareholder agreement under art. 122, Legislative Decree no. 58/98, covering the interest in the share capital of the controlling Company Fingefran S.r.l. All formalities required by the laws and regulatory provisions in force have been fulfilled in relation to the above.

This Agreement, which was entered into on 16 October 2006, covers shares amounting to €25,110.59, equal to 54.023% of the share capital of Fingefran S.r.l. It lays down provisions limiting the sale of the shares as well as provisions exercising voting rights at Fingefran S.r.l. general shareholders' meeting.

The shareholders who entered into the agreement and the percentage of share capital represented by it are shown below.

Shareholder	Nominal value	% of share capital
Maria Chiara Franceschetti	8,370.20	18.008%
Giovanna Franceschetti	8,370.20	18.008%
Andrea Franceschetti	8,370.19	18.007%
Totale quote vincolate	25,110.59	54.023%

The parties mentioned above have bare ownership of the shares in question, since Ennio Franceschetti has the right to life usufruct, and hence voting rights.

The agreement shall come into effect when the right to usufruct is consolidated with bare ownership. It shall be valid for three years as from the date on which it comes into effect.

**h) Change of Control clauses (art. 123-bis, subsection 1, letter h), TUF) and statutory provisions regarding public takeover bids (arts. 104, subsection 1-ter, and 104-bis, subsection 1)**

As at 31 December 2012 there were no Change of Control clauses since Gefran and its subsidiaries have not stipulated any agreements that would become effective, be changed or lose validity in the event of a change in corporate control, with the exception of a loan contract whereby the lending bank is entitled to declare the debtor's loss of the benefit of the term and/or to withdraw in the event of a change in the control of the Company.

The Articles of Association do not contain provisions that:

- derogate from the passivity rule provisions of art. 104, subsections 1 and 2, of the TUF;
- cover the application of the neutralization rules envisaged in art. 104-bis, subsections 2 and 3, of the TUF.

**i) Powers to increase the share capital and authorisation to purchase treasury shares (art. 123-bis, subsection 1, letter m), TUF)**

At present the Board of Directors has no mandate to increase the share capital.

On 23 April 2012 the general assembly authorised the purchase and sale of treasury shares. On the same date the Company notified the market of the launch of the new purchase and sale plan.

The general assembly authorised the purchase of a maximum of 1,440,000 Gefran S.p.A.'s ordinary shares of the nominal value of €1.00 each. The transactions shall be effected in accordance with the law within 18 months of the resolution.

The objectives of the mandate are to:

- intervene directly or through authorised intermediaries in order to limit any abnormal movements in share prices and regulate trading and rates linked to excessive volatility or poor liquidity;
- offer shareholders an additional means for monetising their investments.

The purchase price must be no less than the nominal value and no more than the average reference price of the three trading days prior to the date of purchase, plus 15%. The selling price must be no less than the reference price recorded by the share on the trading day prior to each sale, less 10%.

As at 31 December 2012 the Company directly held 131,462 treasury shares, with a counter-value of €552,956.27, equal to 0.91% of the share capital.

Gefran S.p.A. informs the market weekly of the transactions carried out by means of press releases, and summarizes them in a monthly report to CONSOB, in the form specified in Annexe 3F of the CONSOB Issuers Regulation, if the minimum threshold for transactions (i.e. €100,000.00) involving treasury shares, below which there is no reporting obligation, is exceeded.

**j) Management and coordination (art. 2497 et seq. of the Italian Civil Code)**

Gefran S.p.A. is not subject to management and coordination activities under art. 2497 et seq. of the Italian Civil Code, since the following indices of probable subjection to management and coordination by other subjects are non-existent:

(i) the preparation of industrial, strategic, financial and budget plans for the Group by the parent Company;

(ii) the issuance of directives concerning financial and credit policies;

(iii) the centralisation of functions such as treasury, administration, finance and control;

(iv) the determination of growth strategies for the Group, and the strategic and market position of the Group as a whole and individual companies, especially when the policy lines are likely to influence and determine their actual implementation on the part of Company management.

Gefran S.p.A. currently manages and coordinates the activities of the following companies, directly and indirectly, pursuant to art. 2497 of the Italian Civil Code:

Company	% of share capital held
Gefran Inc.	100
Gefran Brasil Eletroeletronica Ltda	100
Gefran Benelux N	100
Gefran France S.a.	100
Gefran Deutschland GmbH	100
Siei Areg GmbH	100
Gefran UK Ltd	100
Gefran Suisse S.a.	100
Gefran India Pvt. Ltd.	100 through Gefran S.p.A. and Gefran UK
Gefran Siei Asia Pte Ltd	100
Gefran Siei Drives Technology Co. Ltd.	100 through Gefran Siei Asia
Gefran Siei Electric Pte. Ltd.	100 through Gefran Siei Asia
Gefran Ukraine LLC	100 through Gefran UK
Gefran-Enertronica SA Pty Ltd.	60

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We wish to highlight the following:

The information required under art. 123-bis, subsection one, letter i) of the TUF (*“the agreements between the Company and the directors ... providing for compensation in the event of resignation or dismissal without just cause or if their employment ceases following a public takeover bid”*) is contained in the remuneration report published in accordance with art. 123-ter of the TUF.

The information required under art. 123-bis, subsection one, letter l) of the TUF (*“rules governing the appointment and replacement of directors ... and amendment of the articles of association, if different from the laws and regulations applicable as supplementary measures”*) is provided in the section on the Board of Directors in this Report (Section 4.1).

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### **3. COMPLIANCE(ART. 123 – bis, subsection2, letter a)TUF)**

The Corporate Governance structure adopted by the Company is based on the recommendations and regulations set out in the Italian Stock Exchange’s Code of Conduct for Listed Companies, with which the Company complies and which can be consulted on the website [www.borsaitaliana.it](http://www.borsaitaliana.it) .

Subsidiaries of strategic importance are not subject to foreign provisions of law that may influence the corporate governance structure of the parent Company Gefran S.p.A..

## 4. BOARD OF DIRECTORS

### 4.1. APPOINTMENT AND REPLACEMENT (art. 123-bis, subsection 1, letter I), TUF)

Gefran has kept its traditional system of administration, whereby the entire Company is managed by the Board of Directors. The statutory framework regulating the process of appointing the Board of Directors was brought into line with the provisions of Legislative Decree no. 27/2010 (enacting the so-called Shareholders' Rights Directive) by resolution passed at the shareholders meeting held on 22 October 2010.

Article 13 of the Articles of Association, which was last amended by Board resolution on 1 October 2012 to guarantee, pursuant to law no. 120/2011, a gender balance in the composition of the governing bodies, states:

*"The Company is administered by a Board of Directors consisting of a minimum of seven to a maximum of eleven members.*

*The Directors hold office for a period not exceeding three financial years. Their mandate expires on the date of the Meeting called to approve the financial statements for the last year of their period of office, and they are eligible for re-election.*

*Before appointing directors, the General Assembly will determine the number of Board members and their term of office.*

*All Directors must possess the requisites of eligibility, professional qualification and repute required by law and other applicable provisions. Pursuant to art. 147-ter, subsection 4, of Legislative Decree no. 58/1998, at least one Director, or at least two if the Board has more than seven members, must possess the specified requisite of independence (the "Independent Director pursuant to art. 147-ter").*

*The Board of Directors is elected by the General Assembly from lists presented by the Shareholders, according to the procedure detailed in the following subsections, subject to different and further provisions established by mandatory laws or statutory provisions.*

*A list of candidates for the post of director may be presented by Shareholders with a shareholding equal to that established by CONSOB<sup>1</sup> pursuant to art. 147-ter, subsection 1, of Legislative Decree no. 58/1998, and in compliance with the provisions of the Issuers Regulation approved under resolution no. 11971 of 14<sup>th</sup> May 1999 and subsequent amendments.*

*The lists must be presented to the registered office at least twenty-five days prior to the date set for the General Meeting called to appoint the Directors and will be published pursuant to regulations in force at least twenty-one days prior to said date.*

*Each list may contain up to eleven candidates, numbered progressively. Each list must contain and explicitly indicate at least one Independent Director pursuant to art. 147-ter, but no more than seven numbered progressively. If the list contains more than seven names, it must contain and explicitly indicate a second Independent Director pursuant to art. 147-ter. Each list may also, if necessary, indicate which directors possess the requisite of independence laid down by the Codes of Conduct drawn up by investment management companies operating in regulated markets or professional associations.*

*If mandatory gender division criteria are applicable, each list presenting at least three candidates must contain a number of candidates of the less represented gender at least equal to the minimum number required by the provisions of applicable law.*

*The lists must also contain, within them or attached thereto: (i) details of the Shareholders who presented them, and the overall percentage of shareholding held; (ii) full details of the candidates' personal and professional profiles; (iii) a statement by the candidates declaring that they accept their candidature and are in possession of the legal requisites, as well as the requisite of independence, where indicated as Independent Directors pursuant to art. 147-ter or as independent directors under the above-mentioned codes of conduct; (iv) any other or different statement, information and/or document contemplated by the law and by the applicable regulatory standards.*

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<sup>1</sup> The percentage for 2012 was 2.5% of the share capital

*A Shareholder may not present or vote more than one list, whether directly, indirectly or through trust companies. A candidate must be present in one list only, under penalty of ineligibility.*

*At the end of the ballot, candidates from the two lists obtaining the highest number of votes are elected, according to the following criteria: (i) from the list obtaining the highest number of votes (the "Majority List") is taken a number of directors equal to the total number of Board members, as established by the General Assembly, less one; the candidates are elected, in the established number, in the numerical order specified in the list; (ii) from the list that obtained the second highest number of votes and which is not directly or indirectly connected with the Shareholders who presented or voted the Majority List pursuant to the applicable provisions (the "Minority List") is taken one director, namely the candidate at the top of the list. However, if no Independent Directors pursuant to art. 147-ter are elected from the Majority List, when the Board has a maximum of seven members, or if only one Independent Director pursuant to art. 147-ter is elected, when the Board has more than seven members, the first Independent Director pursuant to art. 147-ter in the Minority List will be elected, not the person at the top of the Minority List.*

*Lists that have not gained at least half of the number of votes required for their presentation will not be taken into account.*

*If there is a tied vote between lists, the one presented by Shareholders with the largest shareholding upon presentation of the list, or subordinately, the highest number of Shareholders, will prevail.*

*If, in the Board of Directors thus formed, the requirement of the minimum number of components of the less represented gender, in accordance with applicable law, is not complied with, the last elected candidate in the majority list is replaced by the first non-elected candidate in the same list belonging to the less represented gender, and so on up the majority list. If the minimum number of components of the less represented gender is not reached, they will be appointed by the general assembly with the ordinary majorities established by law, in replacement of the candidates in the majority list belonging to the more represented gender, starting from the last elected candidate, and so on up the list.*

*If only one list has been presented, the General Assembly votes that list, and if the list obtains a relative majority of voters, not counting abstentions, candidates listed in progressive order are elected as directors up to the maximum number established by the General Assembly, provided, however, that if the Board comprises more than seven members, the second Independent Director pursuant to art. 147-ter is also elected, in addition to the one in the first seven placements, and that equality between genders is complied with in accordance with applicable law. If the minimum number of components of the less represented gender is not reached, they will be appointed by the general assembly with the ordinary majorities established by law, in replacement of the candidates in the only list belonging to the more represented gender, starting with the last elected candidate, and so on up the list.*

*If there are no lists, or if the number of directors elected from the lists presented is less than the number*

*established by the General Assembly, the members of the Board of Directors are appointed by the General Assembly with the quorum established by law, subject to the appointment by the General Assembly of a number of Independent Directors pursuant to art. 147-ter equal to the minimum number established by law, and the general assembly's obligation to appoint a number of directors belonging to the less represented gender that is not below the minimum number established by the provisions of applicable law.*

*Independent Directors pursuant to art. 147-ter identified as such at the time of their appointment must report any future loss of the requisite of independence, and they will fall from office, as prescribed by law.*

*If, for any reason, one or more Directors fall from office, they are replaced in accordance with the provisions of art. 2386 of the Civil Code, subject to the obligation to maintain the minimum number of Independent Directors pursuant to art. 147-ter established by law, and the obligation to maintain equality between genders in accordance with the regulations in force at the time.*

*If due to resignations or other causes, half the number, in the event of an even number, or more than half in the event of an odd number, of the directors holding office or designated directors fall from office, the entire Board is deemed suspended as from the following reconstitution of the Board and a meeting for the new appointments shall be called urgently by the remaining directors, which will take place in accordance with the provisions of this article.*

**\*\*\***

There are no special procedures for making changes to the Articles of Association.

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At present the Board has not adopted a succession plan for executive officers.

#### **4.2. COMPOSITION (art, 123-bis, subsection 2, letter d), TUF)**

The Board of Directors in office as at 31 December 2012 was appointed at the general shareholders' meeting held on 4 May 2011 using the list system, in particular with only the Majority List submitted by the shareholder Fingefran S.r.l. on 7 April 2011, which held a total of 8,004,000 Gefran S.p.A. ordinary shares, equal to 55.58% of the share capital.

The list contained the following candidates:

1. Ennio Franceschetti, born in Provaglio d'Iseo (Brescia) on 5 September 1942;
2. Alfredo Sala, born in Milan on 26 January 1960;
3. Romano Gallus, born in Lumezzane (Brescia) on 24 November 1941;
4. Giovanna Franceschetti, born in Iseo (Brescia) on 3 February 1976;
5. Andrea Franceschetti, born in Iseo (Brescia) on 28 May 1977;
6. Cesare Vecchio, born in Pavia on 1 April 1962;
7. Elisabetta Magistretti, born in Busto Arsizio (Varese) on 21 July 1947;
8. Marco Agliati, born in Milano on 30 September 1954;
9. Maria Chiara Franceschetti, born in Iseo (BS) on 22 July 1969.

The above list received 8,300,327 votes, representing 93.7392% of the voting share capital.

Elisabetta Magistretti resigned on 1<sup>st</sup> October 2012, on which date the Board of Directors co-opted Daniele Piccolo to replace her.

The Company has not set up an Executive Committee or an Appointments Committee.

Even when the directors hold other posts, they all devote the time required to perform their tasks, being aware of the responsibilities associated with their posts. They are kept abreast of the main changes in the applicable laws and regulations.

The directors perform their tasks with full knowledge of the facts, and contribute to the Board discussions their specific skills of a technical and strategic nature, in full autonomy and independent judgement, pursuing the aim of creating value for the shareholders.

The four non-executive directors, who do not have operational or managerial powers within the Company, can provide a broader perspective in discussions on the agenda, especially matters where the interests of the executive directors and those of the shareholders do not coincide.

***Personal and professional profile of each director (art. 144-decies of the CONSOB Issuers Regulation)***

Below is a brief profile of each director holding office on the date of this Report, providing personal details, qualifications and experience.

**Ennio Franceschetti**

Born in Provaglio d'Iseo (Brescia) on 5 September 1942. Current Chairman of the Board of Directors of Gefran S.p.A. and founder of Gefran S.p.A., where he has been Chief Executive Officer since 2004. He holds a diploma as an Industrial Expert from Istituto Tecnico Castelli in Brescia. He is chairman of CSMT S.c.a.r.l., Centro Servizi Multisetoriale and Tecnologico, which was set up to convert innovation into application, and combines a range of international university skills with the hands-on approach typical of the Brescia industrial area.

**Alfredo Sala**

Born in Milan on 26 January 1960. Current Chief Executive Officer of the Gefran Group. He holds a decree in Mechanical Engineering from the Milan Polytechnic and acquired work experience at Techint and later The Boston Consulting Group. He was also Vice-President and Chief Executive Officer of Alstom Power Italia, an Italian Company involved in the energy generation business.

**Romano Gallus**

Born in Lumezzane (Brescia) on 24 November 1941. Entrepreneur and founder of GV Stamperie S.p.A., a Company in the brass hot-forging business of which he is Chief Executive Officer. He has been a member of the Board of Directors of Gefran S.p.A. since 2000 and Vice-Chairman since 2004.

**Maria Chiara Franceschetti**

Born in Iseo (Brescia) on 22 June 1969. She is currently HR Manager at Gefran and since 2002 has been a Board Member and Executive Director of Fingefran S.r.l., which controls Gefran S.p.A. She graduated in Mechanical Engineering from Brescia University and started her carrier as Director of 3S S.r.l. in Varese. She later joined the Gefran Group as Information System Manager.

**Andrea Franceschetti**

Born in Brescia on 28 May 1977. He obtained a Master's Degree in Economics and Management of Small and Medium Enterprises in 2007 and a Master's Degree in Business Economics in 2009, promoted by Il Sole 24 Ore.

In 2001 and 2002 he was responsible for updating Vortal Srl's Go-Fluid site for Hydraulics/Pneumatics/Lubrication.

He joined Gefran S.p.A. in 2002 and was Production Manager up until 2005 and later Head of Quality Control and the Test Laboratory. He has been Export Director South America since 2011.

#### **Daniele Piccolo**

Born in Milan on 26 June 1962. He graduated in Economics from Parma University and completed his professional training in financial markets and marketing at the following institutes: SDA Bocconi, Milan; HEC, Paris; EFMA, Paris; Lafferty's, London; Istud Business School, Milan. From 1982 to 2007 he held numerous posts of increasing importance within Gruppo Credito Emiliano. From 2001 to 2006 he was Chief Executive Officer of Istifid S.p.A., Milan. Since February 2007 he has been Co-Director General of Banca Albertini Syz & C. S.p.A.

The Board of Directors has verified that Daniele Piccolo possessed the requisites pursuant to art. 148, subsection 3, of the TUF, and application criteria 3.C.1. and 3.C.2. of the Code of Conduct, to be qualified as independent director of the Company.

#### **Cesare Giovanni Vecchio**

Born in Pavia on 1 April 1962. He qualified as a lawyer in 1991 and is also a registered auditor. For over ten years he was a partner in the Freshfields Bruckhaus Deringer law firm, where he mainly handled M&A and Finance. From 2007 to 2010 he was a partner with the Willkie Farr & Gallagher law firm.

He has published numerous works on finance and is an expert in structured finance and corporate takeovers.

The Board of Directors has verified that Cesare Giovanni Vecchio possessed the requisites pursuant to art. 148, subsection 3, of the TUF, and application criteria 3.C.1. and 3.C.2. of the Code of Conduct, to be qualified as independent director of the Company.

#### **Giovanna Franceschetti**

Born in Iseo (Brescia) on 3 February 1976. She holds a degree in Public Relations from the Bocconi University in Milan. After obtaining a Master's Degree in Business Administration, she started working as Product Manager for Unilever, a multinational operating in the commodities market.

She is currently in charge of Communication and Image at Gefran and has been the Group's Investor Relator since 2004. She is a Board Member of Ensun S.r.l. and BS Energia 2 S.r.l., both of which operates in the photovoltaic sector.

#### **Marco Agliati**

Born in Milan on 30 September 1954. He graduated in Business Economics from the Bocconi University in Milan in 1980. From 1990 to 2003 he was Director of Administration and Control at the Bocconi University's Business Management School. He has been pro-rector for organisation at the Bocconi University since 2004 and pro-rector for the coordination of rectorate activities since 2010.

He is currently ordinary professor of Business Economics at the Bocconi University in Milan, where he teaches planning and control.

The Board of Directors has verified that Marco Aliati possessed the requisites pursuant to art. 148, subsection 3, of the TUF, and application criteria 3.C.1. and 3.C.2. of the Code of Conduct, to be qualified as independent director of the Company.

At the meeting held on 12 November 2010, the Board expressed its position with regard to the maximum number of offices held as directors, distinguishing in particular between executive directors, of which there are a maximum of 5, excluding offices held within the Group, and non-executive and independent directors, of which there are a maximum of 12 offices, excluding positions in the companies listed in art. 113 of the TUF. This position was confirmed by the current Board on 14 November 2011.

The maximum number of offices was determined in relation to the commitments of the executive directors, considering their operational role within the Company, and those of the non-executive directors, considering the periodic commitments of the Board and the internal Committees.

The Board's current composition complies fully with the general guidelines outlined above.

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Pursuant to the recommendations of art. 2.C.2 of the Code of Conduct (the so-called Induction Programme), the Chairman ensures that the directors and auditors can take part in initiatives designed to improve their knowledge of the sector in which the issuer works, as well as corporate dynamics and their evolution. This takes place in the form of Company visits and meetings with commercial and technical top management.

#### **4.3. ROLE OF THE BOARD OF DIRECTORS (art. 123-bis, subsection 2, letter d), TUF)**

In line with the provisions of the traditional model of administration and control, the Board of Directors is responsible for strategically guiding and supervising the overall business and has powers to direct overall administration and intervene directly in all major decisions necessary or useful for achieving the corporate aim.

The Board of Directors has the power to make major decisions in terms of economics and strategy, and in terms of structural incidence on business management, and the decisions required for directing and controlling Gefran operations.

In carrying out its tasks, the Board of Directors is supported by specific committees set up by its own members, with instruction, advisory and consulting functions.

On the Chairman's and the Chief Executive Officers' invitation, Board meetings are attended by Management representatives to enable the directors and the Board as a whole to acquire an in-depth knowledge of the activities of the Company and the Group.

In 2012 the Board met 6 times with an average attendance of 100% and an average meeting duration of two and a half hours. This high frequency and the constant presence of the Board of Auditors enable the Board to act in a timely and effective manner. Any absences are announced and justified in advance.

The 2013 Schedule of Corporate Events, which can be consulted on the Company's website, includes five meetings to approve the interim financial reports. So far this year, the Board met on 13 February to approve the draft consolidated financial statements as at 31 December 2012 and on 13 March 2013 to approve the draft budget and the 2012 consolidated financial statements.

The Chairman, assisted by the Lead Independent Director, ensures that for all matters submitted to the Board for discussion, all directors receive well in advance sufficient documentation and information to enable them to assess and make an informed decision, except in urgent cases or when matters of a particular confidentiality are discussed, in which case the items on the agenda are still discussed exhaustively.

In order to comply the application criterion 1.C.5 of the current Code of Conduct for Listed Companies, the Board of Directors has established the following terms of notice for sending documentation on the various items on the agenda: 5 days for interim financial reports; 3 days for documentation on other matters; 1 day for motivated and particularly urgent matters.

Board meetings may take place using means of telecommunication allowing all participants to take part in the debate and receive information.

Board meetings are convened by the Chairman, the Vice-Chairman or two directors, by letter, fax or e-mail sent at least three days in advance to each director and statutory auditor to the address or number provided. In urgent cases the Board can be convened by telegram, fax or e-mail sent with two days' notice.

On 13 March 2013, pursuant to application criteria 1.C.1, letters g) and i) of the Code of Conduct, the Board of Directors made a positive assessment of the size, composition and operations of the Board itself and its members, based on the results of the self-assessment questionnaire completed by the directors.

Questionnaires are completed anonymously and aim to obtain an objective and free assessment of the following operational aspects:

- operation of the Board and Board Committees;
- composition and competences of the Board and Board Committees;
- contributions by the Board in the reference period;
- relations with Executive Directors and Senior Managers;
- self-assessment of individual performance.

These sections contain a series of questions for the Directors to answer by attributing a score of 0 to 4.

There is also a section for suggestions and ideas for improvement.

The Independent Directors met to examine the positions and observations resulting from the questionnaires, in order to identify the most important elements to report to the Board at the above meeting.

On average, the rating assigned to the various sections was deemed appropriate and satisfactory.

The main strengths indicated by the Directors were the competence, professionalism and experience of the Board members, participation in corporate life, cohesion and transparency, knowledge of corporate governance and the involvement of individual members over and beyond their specific role.

The Directors also reported an improvement in risk management and called for the Company to continue careful monitoring of the financial situation.

### **Tasks of the Board of Directors**

The Board of Directors of Gefran S.p.A.

- examines and approves the Company's and the Group's strategic industrial and financial plans, monitors their implementation and determines the system of corporate governance and the structure of the Group headed by the Company;
- establishes guidelines for the internal control system, appoints a director to supervise the system and determines his/her tasks and powers;
- supervises the risk management process and establishes the overall threshold of acceptable risk;
- determines the appropriateness of the organisational, administrative and general accounting structure of the Company and its subsidiaries of strategic importance;
- sets up one or more internal advisory committees, appoints the members and establishes their tasks, powers and fees;
- grants powers to the executive directors and the executive committee, if there is one, and revoke them, determines the limits and methods of execution, and establishes the frequency, which must not exceed every three months, for the executive bodies to report to the Board on the operations carried out in the exercising of their powers;
- draws up the general remuneration policy and, after examining the Remuneration Committee's proposals and consulting the Board of Auditors, approves the fees of the Executive Directors and the other directors with special powers, and unless already done by the General Assembly, the division of the global fee due to the members of the Board;
- assesses the general business situation based mainly on information received from the executive bodies and periodically comparing the achieved results with the planned results;
- preliminarily examines and approves the operations of the Company and its subsidiaries of strategic, economic, patrimonial and financial importance, meaning as such all operations having a financial effect on the Company;
- assesses, at least once a year, the size, composition and functioning of the Board and the various committees, and possibly advising on the professional figures whose presence in the Board is deemed appropriate;
- appoints the Supervisory Board in accordance with Legislative Decree no. 231 of 8 June 2001;
- appoints the executive officer responsible for drawing up the corporate accounting documents, determines his/her responsibilities and powers and identifies key management personnel;

- appoints and revokes, on the proposal of the director responsible for supervising the internal control system, the Internal Audit Manager and, after consulting the Internal Control and Risk Management Committee and the Board of Auditors, determines his/her fees;
- assesses and approves operations with related parties in accordance with the corporate procedure on Transactions with Related Parties;
- assesses and approves the interim reports required by law;
- formulates proposals to submit to the General Assembly;
- exercises the other powers and fulfils the tasks attributed to it by the law and the Articles of Association.

The assessment of the organisational, administrative and accounting structure of the Companies and its subsidiaries of strategic importance, with particular reference to the internal control and risk management system, was submitted to the Gefran Board of Directors at the meeting held on 17 December 2012.

The accounting methods used by the parent company and its subsidiaries and the main tools (information system and software) used in support of the administrative and accounting structure for drawing up the consolidated financial statements were explained to the Board. The internal control system adopted by the Company and its strategic guidelines were also outlined.

The corporate organisation was examined, with particular reference to the organisation charts and the power delegation system adopted by the Company.

Details were provided on intercompany agreements in being and important centralised services concerning the organisation, administration and bookkeeping.

At the end of the presentation, the Board expressed its unanimous approval.

In accordance with arts. 36 and 39 of the CONSOB Market Regulations, the Company implements an internal procedure to identify subsidiaries of strategic importance. Pursuant to art. 36, these companies are identified by Administration and Finance and by Legal and Corporate Affairs, in concert with the executive officer in charge of drawing up the accounting documents.

The Chief Executive Officer, the internal auditing body, the independent auditing firm and, periodically, the Internal Control and Risk Management Committee, are all informed of the subsidiaries of strategic importance identified.

Based on the above procedure, the subsidiaries currently identified as having strategic importance are Gefran Siei Asia Pte Ltd, Gefran Siei Drives Technology Co. Ltd, Gefran Inc., Gefran Deutschland GmbH and Siei Areg GmbH.

#### 4.4 EXECUTIVE BODIES

The Board has appointed from among its members:

- the Chairman, Ennio Franceschetti, who is also controlling shareholder, (*“the Chairman of the Board is granted powers of legal representation of the Company and all powers of ordinary and extraordinary administration”*); in accordance with art. 2.P.5 of the Code, the Board has granted the chairman executive powers, in consideration of the organisational complexity of the Gefran Group, to allow more efficient implementation of the corporate business and strategies;
- the Vice Chairman, Romano Gallus, (with the powers established in Article 21 of the Articles of Association, namely *“the Vice-Chairman, in the absence or impediment of the Chairman, is granted powers of signature and legal representation of the Company before third parties and in legal proceedings of any degree*);
- Alfredo Sala, qualified as Chief Executive Officer and to whom interlocking directorate does not apply – with powers of ordinary administration and general powers to represent the company granted by the Board of Directors, within the established limits published in the local Registry of Companies, namely:

*“the powers of ordinary administration listed below, to be exercised with individual and separate signature, unless specified otherwise:*

a) *to carry out banking and financial transactions, namely powers to:*

*1) open and close bank and postal current accounts and securities accounts;*

*2) issue ordinary and bankers’ cheques and money orders, give orders for payment either electronically or otherwise, withdraw bills of exchange and cash orders, sign orders and receipts to withdraw money from banks and financial institutions, and postal accounts, and in general manage the Company’s bank and postal current accounts, including the signing of currency trading contracts and interest rate and currency hedge contracts up to €4,000,000.00 (four million euros only) per transaction or series of transactions related to the same subject, using cash on hand or the credit lines available, all in compliance with the contract provisions governing the relationships with said entities;*

*3) transfer funds between the Company’s various current accounts and collect sums of money in the name and on behalf of the Company;*

*4) issue bills of exchange, accept drafts and carry out any transactions involving bills of exchange in general that are related to the supply of goods and/or services rendered to the Company, for a maximum amount of €2,500,000.00 (two million five hundred thousand euros only) per transaction or series of transactions related to the same subject;*

*5) perform transactions on fixed income securities up to a limit of €2,500,000.00 (two million five hundred thousand euros only) per transaction and per day; higher amounts require the signature of the CEO and that of the Chairman;*

*6) take out and issue loans of any kind with any party and in any form, and provide collateral and personal securities up to €4,000,000.00 (four million euros only);*

b) to cash, withdraw, sign and despatch, namely powers to:

1) demand and receive any sums due to the Company for any reason and issue receipts for total or partial collection;

2) collect from post, railway and transport offices any types of registered letter, package or parcel, and in general anything addressed to the Company, and issue receipts and quittances;

3) sign the Company's ordinary correspondence within the framework of his powers, writing "Gefran S.p.A." and "the Chief Executive Officer" followed by his signature;

4) despatch and collect letters, packages and parcels, including registered and insured ones;

c) to represent the Company and execute transactions with public and private bodies and subsidiaries, namely powers to:

1) represent the company before any civilian, administrative or judicial authorities, with powers to sign appeals, propose and accept transactions, initiate law suits, appear as defendant or respondent, represent the company in meetings of creditors, make propositions or prove debts in bankruptcy proceedings, accept composition with customers and demand payment, negotiate any amounts or disputes up to a limit of €500,000.00 (five hundred thousand euros), reach a settlement in disputes by arbitration or seek friendly settlements, final or otherwise, ensure the implementation of judgements, make and accept conclusive and other sworn statements, promote foreclosures and seizures or other conservative acts against debtors and third parties and revoke the same;

2) perform any transactions and represent the Company in any fiscal or administrative formality or controversy at any public state, regional or municipal or any private office, in Italy and abroad, or offices of the inland revenue and before administrative boards of the first and second degree, sign and file, electronically or otherwise, income and other returns, Intrastat forms, fiscal and statistical forms and questionnaires, accept and reject assessments, reach agreements and settlements, challenge lists, present petitions, complaints and documents, appoint counsel for the defence for presenting appeals and statements of defence before any tax office or board, or at inland revenue offices or administrative boards of the first and second degree, tax refunds, including interest, issue receipt, effect payments with no limit to the amount and take any steps required to pay direct and indirect taxes, duties and dues, including social security contributions;

3) represent the Company before any central or peripheral administrative authorities to obtain concessions, licences and permits;

4) represent the Company at CONSOB, the Italian Stock Exchange and Securities Centralised Administration, with the faculty to sign any kind of document, communication or notice, including press releases with price-sensitive contents, in accordance with the regulations and codes adopted by the Company;

5) attend ordinary and extraordinary meetings of subsidiaries as the representative of GEFran S.p.A. and vote at his own discretion on resolutions;

6) take the steps in the patenting procedure, including but not limited to requests for correction, amendments, secrecy extensions and divisions, propose or resist administrative oppositions, interferences and administrative appeals, and take any other steps required for applying for, obtaining and maintaining patents, sign all the deeds required to execute the above powers, appoint patent agents in Italy and abroad and grant them mandate;

d) to handle the day-to-day administration of property, namely powers to:

1) sign documents concerning the current administration of the company's own property and third-party property leased to the Company, and all connected and consequent operations;

2) stipulate, amend and terminate lease agreements covering third-party property and the Company's own property, with a maximum duration of nine years;

e) to stipulate insurance policies, namely powers to:

1) enter into private insurance agreements or mandates, as the insured party, covering risks involving the Company's assets (including credit insurance) and employees and third-party liability, and sign the insurance policies;

2) make changes to said insurance agreements, in the event of damage suffered negotiate the amount of compensation due by the insurance company, and issue receipts for sums collected;

f) to enter into supply contracts, namely powers to:

1) stipulate, amend and terminate contracts covering the supply of any kind of utilities required for the ordinary running of the company, and represent the Company at companies supplying energy, telecommunication services and other services to businesses;

g) to enter into transport agreements, namely powers to:

1) stipulate, amend and terminate contracts with transport companies, shipping agents and other public or private bodies or entities, in Italy or abroad, that provide transport for goods or people;

h) to buy movable goods not intended for resale or for industrial activities, namely powers to:

1) purchase, lease, financially or otherwise, hire, loan or sell registered and unregistered movables, furniture and equipment up to a limit of €500,000.00 (five hundred thousand euros only) per transaction;

i) to appoint and grant mandate to proxies, namely powers to:

1) grant professional mandates of a non-continuous nature, within his powers;

2) appoint special proxies for single acts or categories of acts within his powers;

j) to hire and dismiss personnel, namely powers to:

1) hire, promote and dismiss the Company's non-executive employees in Italy and abroad; determine their faculties, tasks, guarantee deposits, remuneration and regulatory treatment; pronounce revocations, suspensions, job changes, transfers, and disciplinary and other provisions; determine and pay termination indemnities;

2) with the joint signature of the Chairman of the Company, hire and dismiss executives, in Italy and abroad, determine their faculties, tasks, guarantee deposits, remuneration and regulatory treatment; pronounce revocations, suspensions, job changes, transfers, and disciplinary and other provisions; determine and pay termination indemnities;

k) to manage the Company's industrial activity, namely powers to:

1) negotiate, finalise and stipulate lease agreements up to a duration of nine years, and custody, storage and transport agreements connected with the Company's industrial activity;

2) contract in and contract out work of any kind and stipulate work contracts connected with the Company's industrial activity;

3) negotiate, finalise and stipulate agreements for the supply of goods and services required connected with the Company's industrial activity;

4) purchase, lease, sell and swap movable goods, machinery, plant and equipment connected with the Company's industrial activity, with the faculty to negotiate terms, conditions and fees. All within the limit of €500,000.00 (five hundred thousand euros only) per operation;

l) to manage the Company's commercial activity, namely powers to:

1) finalise and sign contracts with customers and grant payment extensions, discounts and bonuses;

2) handle formalities connected with the importation and exportation of finished and unfinished products, and fulfil all the associated obligations;

3) purchase printed, advertising and propaganda materials, and stipulate supply contracts;

4) enter into and terminate mandate, commission, agency, distribution, brokerage and business procurement agreements;

5) demand and issue receipts for sums of money, cheques, bills of exchange, cautionary deposits, payment orders and anything else due to the Company;

6) reach compromises on disputed receivables, and grant discounts and allowances up to a maximum sum of €300,000.00 (three hundred thousand euros only) per operation;

7) obtain protests and court injunctions, promote cautionary or executives measures, file bankruptcy petitions, intervene in bankruptcy or insolvency proceedings in general to recover amounts due to the Company.

- the Executive Director, Maria Chiara Franceschetti (with managerial powers within the Company; in particular she is the Group's Human Resources Manager), with the following powers:

a) to carry out banking and financial transactions, namely powers to:

1) open and close bank and postal current accounts and securities accounts;

2) issue ordinary and bankers' cheques and money orders, give orders for payment either electronically or otherwise, withdraw bills of exchange, sign orders and receipts to withdraw money from banks and financial institutions, and postal accounts, and in general manage the Company's bank and postal current accounts, up to a maximum of €300,000.00 (three hundred thousand euros only) per transaction or series of transactions related to the same subject, using cash on hand or the credit lines available, all in compliance with the contract provisions governing the relationships with said entities;

3) transfer funds between the Company's various current accounts and collect sums of money in the name and on behalf of the Company;

4) endorse bills of exchange for collection up to a maximum of €300,000.00 (three hundred thousand euros only) per transaction or series of transactions related to the same subject;

5) perform transactions on fixed income securities up to a maximum of €300,000.00 (three hundred thousand euros only) per transaction and per day; higher amounts also require the signature of the Chief Executive Officer;

6) with the joint signature of the Chief Financial Officer, Valentina Montanari, effect the transactions under points 2, 4 and 5 above for a value of more than €300,000.00 (three hundred thousand euros only) up to a maximum of €1,000,000.00 (one million euros only);

b) to cash, withdraw, sign and despatch, namely powers to:

1) demand and receive any sums due to the Company for any reason and issue receipts for total or partial collection;

2) collect from post, railway and transport offices any types of registered letter, package or parcel, and in general anything addressed to the Company, and issue receipts and quittances;

3) sign the Company's ordinary correspondence within the framework of his powers, writing "Gefran S.p.A." and "the Executive Director" followed by her signature;

4) despatch and collect letters, packages and parcels, including registered and insured ones;

c) to represent the Company and execute transactions with public and private bodies, namely powers to:

1) represent the company before any civilian, administrative or judicial authorities, with powers to sign appeals, propose and accept transactions, initiate law suits, appear as defendant or respondent, represent the company in meetings of creditors, make propositions or prove debts in bankruptcy proceedings, accept composition with customers and demand payment, negotiate any amounts or dispute up to a limit of €100,000.00 (one hundred thousand euros), reach a settlement in disputes by arbitration or seek friendly settlements, final or otherwise, ensure the implementation of judgements, make and accept conclusive and other sworn statements, promote foreclosures and seizures or other conservative acts against debtors and third parties and revoke the same;

2) attend ordinary and extraordinary meetings of subsidiaries as the representative of GEFran S.p.A. and vote at her own discretion on resolutions;

3) take the steps in the patenting procedure, including but not limited to requests for correction, amendments, secrecy extensions and divisions, propose or resist administrative oppositions, interferences and administrative appeals, and take any other steps required for applying for, obtaining and maintaining patents, sign all the deeds required to execute the above powers, appoint patent agents in Italy and abroad and grant them mandates;

d) to buy movable goods not intended for resale or for industrial activities, namely powers to:

1) purchase, lease, financially or otherwise, hire, loan or sell registered and unregistered movables, furniture and equipment up to a limit of €100,000.00 (one hundred thousand euros only) per transaction;

e) to manage the Company's commercial activity, namely powers to:

1) handle formalities connected with the importation and exportation of finished and unfinished products, and fulfil all the associated obligations;

2) demand and issue receipts for sums of money, cheques, bills of exchange, cautionary deposits, payment orders and anything else due to the Company;

3) obtain protests and court injunctions, promote cautionary or executives measures, file bankruptcy petitions, intervene in bankruptcy or insolvency proceedings in general to recover amounts due to the Company;

- and powers to approve the granting of a special proxy, requiring formal notarial registration, to Valentina Montanari so that she, in her capacity as Chief Financial Officer, may:

a) carry out banking and financial transactions, namely powers to:

1) open and close bank and postal current accounts and securities accounts;

2) issue ordinary and bankers' cheques and money orders, give orders for payment either electronically or otherwise, withdraw bills of exchange, sign orders and receipts to withdraw money from banks and financial institutions, and postal accounts, and in general manage the Company's bank and postal current accounts, up to a maximum of €300,000.00 (three hundred thousand euros only) per transaction or series of transactions related to the same subject, using cash on hand or the credit lines available, all in compliance with the contract provisions governing the relationships with said entities;

3) transfer funds between the Company's various current accounts and collect sums of money in the name and on behalf of the Company;

4) endorse bills of exchange for collection up to a maximum of €300,000.00 (three hundred thousand euros only) per transaction or series of transactions related to the same subject;

5) perform transactions on fixed income securities up to a maximum of €300,000.00 (three hundred thousand euros only) per transaction and per day; higher amounts also require the signature of the Chief Executive Officer;

6) with the joint signature of the Executive Director, Maria Chiara Franceschetti, effect the transactions under points 2, 4 and 5 above for a value of more than €300,000.00 (three hundred thousand euros only) up to a maximum of €1,000,000.00 (one million euros only);

b) cash, withdraw, sign and despatch, namely powers to:

1) demand and receive any sums due to the Company for any reason and issue receipts for total or partial collection;

2) collect from post, railway and transport offices any types of registered letter, package or parcel, and in general anything addressed to the Company, and issue receipts and quittances;

3) sign the Company's ordinary correspondence within the framework of his powers, writing "Gefran S.p.A." and "CFO Gefran Group" followed by her signature;

4) *despatch and collect letters, packages and parcels, including registered and insured ones;*

c) *represent the Company and execute transactions with public and private bodies, namely powers to:*

1) *represent the company before any civilian, administrative or judicial authorities, with powers to sign appeals, propose and accept transactions, initiate law suits, appear as defendant or respondent, represent the company in meetings of creditors, make propositions or prove debts in bankruptcy proceedings, accept composition with customers and demand payment, negotiate any amounts or dispute up to a limit of €100,000.00 (one hundred thousand euros), reach a settlement in disputes by arbitration or seek friendly settlements, final or otherwise, ensure the implementation of judgements, make and accept conclusive and other sworn statements, promote foreclosures and seizures or other conservative acts against debtors and third parties and revoke the same;*

2) *perform any transactions and represent the Company in any fiscal or administrative formality or controversy at any public state, regional or municipal or any private office, in Italy and abroad, or offices of the inland revenue and before administrative boards of the first and second degree, sign and file, electronically or otherwise, income and other returns, Intrastat forms, fiscal and statistical forms and questionnaires, accept and reject assessments, reach agreements and settlements, challenge lists, present petitions, complaints and documents, appoint counsel for the defence for presenting appeals and statements of defence before any tax office or board, or at inland revenue offices or administrative boards of the first and second degree, tax refunds, including interest, issue receipt, effect payments with no limit to the amount and take any steps required to pay direct and indirect taxes, duties and dues, including social security contributions;*

3) *represent the Company before any central or peripheral administrative authorities to obtain concessions, licences and permits;*

4) *represent the Company at CONSOB, the Italian Stock Exchange and Securities Centralised Administration, with the faculty to sign any kind of document, communication or notice, including press releases with price-sensitive contents, in accordance with the regulations and codes adopted by the Company;*

5) *attend ordinary and extraordinary meetings of subsidiaries as the representative of*

*GEFRAN S.p.A. and vote at her own discretion on resolutions;*

6) *take the steps in the patenting procedure, including but not limited to requests for correction, amendments, secrecy extensions and divisions, propose or resist administrative oppositions, interferences and administrative appeals, and take any other steps required for applying for, obtaining and maintaining patents, sign all the deeds required to execute the above powers, appoint patent agents in Italy and abroad and grant them mandate;*

d) *buy movable goods not intended for resale or for industrial activities, namely powers to:*

1) *purchase, lease, financially or otherwise, hire, loan or sell registered and unregistered movables, furniture and equipment up to a limit of €100,000.00 (one hundred thousand euros only) per transaction;*

e) *manage the Company's commercial activity, namely powers to:*

1) *handle formalities connected with the importation and exportation of finished and unfinished products, and fulfil all the associated obligations;*

*2) demand and issue receipts for sums of money, cheques, bills of exchange, cautionary deposits, payment orders and anything else due to the Company;*

*3) obtain protests and court injunctions, promote cautionary or executives measures, file bankruptcy petitions, intervene in bankruptcy or insolvency proceedings in general to recover amounts due to the Company.*

In accordance with the recommendations of the Code, the executive bodies report to the Board of Directors, at least quarterly, on the activities carried out in exercising their powers.

#### **4.5. OTHER EXECUTIVE DIRECTORS**

Giovanna Franceschetti and Andrea Franceschetti are also considered executive directors as the former is the Group's Investor Relator and the latter holds management positions on the Boards of some of the foreign subsidiaries and was appointed International Sales Director in February 2013.

#### **4.6. INDEPENDENT DIRECTORS**

Three of Gefran's four non-executive directors holding office on the date of this Report are independent, meaning that they do not have or have not recently had, either directly or indirectly, significant relations with the Company or with subject linked to it of a nature likely to affect their independent judgement.

The procedure adopted by the Board to verify independence requires the existence of this requisite to be declared by the director on his/her candidacy for the post. Independent directors also undertake to inform the Board immediately of the occurrence of any situation undermining this requirement, and hence resign from their post. The assessment of independence is renewed by the Board when they become aware of important circumstances, such as the taking up of new positions.

The Board of Auditors verified the correct application of the assessment criteria and procedures adopted by the Board to determine the independence of its members, and made the results known in its report to the General Assembly.

The independent directors were convened by the Lead Independent Director and met once during the year, assisted by the company secretary and without the presence of the other directors in order to assess the business situation and the functioning of the Board of Directors.

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

The independent director, Cesare Vecchio, was appointed Lead Independent Director (LID) at the board meeting held on 4 May 2011.

The fundamental role of the Chairman and his position as majority shareholder of the Company, made it necessary to appoint a Lead Independent Director, who was granted powers of ordinary and extraordinary administration, due to his extensive experience, professional skill in the industry and in-depth knowledge of the company.

The Lead Independent Director acts as a point of reference and coordination for petitions and contributions made by non-executive and independent directors, thereby ensuring decisions that are independent of management.

The LID can decide to call meetings with the independent directors, either himself or on the request of other directors, for issues concerning the Board or corporate business.

Minutes of all independent directors' meetings are duly taken.

## **5. TREATMENT OF CORPORATE INFORMATION**

The company considers it essential to keep an open dialogue with investors, safeguard confidential documents and information and ensure transparency. By Board resolution dated 20 March 2006 the company adopted the "*Rules for managing inside information*", which lays down rules and regulations on inside information within the organisation, in compliance with Legislative Decree 58/98 of the TUF (Consolidated Finance Act), the CONSOB regulation and the rules issued by the Italian Stock Exchange.

These rules also establish the policies and procedures on company disclosure of information to the public so that they are disseminated to all investors in a global, timely, complete and appropriate manner. The information is issued via press releases, meetings with the financial community and the press. Extensive and up-to-date documentation is also made available on the website [www.gefran.com](http://www.gefran.com).

The Company's internal regulations include procedures for keeping and updating the "*Register of persons with access to inside information*". A person is appointed to keep the register at the Legal Department and a substitute for the Investor Relator is also designated.

The Chief Executive Officer oversees the application of the procedures on company information and coordinates the internal departments involved.

In accordance with the Code of Conduct, the company approved the Internal Dealing Code on 20 March 2006, which lays down provisions on information obligations and limitations with regard to transactions involving financial instruments issued by Gefran S.p.A. and effected by relevant persons, expressly defined as such in the regulations, based on the subjects' right of access to price-and-business sensitive information, which depends on the position held.

## **6. INTERNAL COMMITTEES (art. 123-bis, subsection 2, letter d), TUF)**

The Company's Board of Directors has set up the following committees, the member of which are all board members:

(i) the Internal Control and Risk Management Committee

(ii) the Remuneration Committee.

These committees execute their functions by means of meetings, the minutes of which are filed by the Company. Each committee has access to the corporate information and departments required to perform their duties. They can also use external consultants.

## 7. APPOINTMENTS COMMITTEE

Following an internal assessment, the current Board deemed it unnecessary to set up an Appointments Committee.

This decision is based on the fact that the corporate structure is characterised by a low degree of stock circulation and the fact that ownership is held by a limited number of parties.

Candidates for sitting on the Board of Directors are proposed by means of list voting, according to the system set forth in the Articles of Association, thereby allowing all Gefran shareholders to vote.

## 8. REMUNERATION COMMITTEE

The Company has appointed a Remuneration Committee made up of three non-executive directors, the majority of which are independent. They will hold office up until approval of the financial statements for the year ending 31 December 2013. On appointing the Committee, the Board considered it necessary for some of the members to have experience with and a knowledge of the financial matters.

The current Committee comprises the following directors:

Office	Name and surname
Independent Director	Daniele Piccolo
Chairman of the Committee	
Independent Director	Cesare Vecchio
Non-executive Director	Romano Gallus

Details of the Committee's tasks and operations are provided in the Remuneration Report published in accordance with art. 123-ter of the TUF.

## 9. DIRECTORS' FEES

Details of the Directors' fees are provided in the Remuneration Report published in accordance with art. 123-ter of the TUF.

## 10. INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

The Internal control and risk management committee (formerly the Internal Control Committee) comprises three independent directors, who are all expert in accounting and finance and/or risk management. The composition of the committee was considered appropriate by the Board of Directors, which appointed the members.

All the members of the committee will hold office until the Board of Directors falls from office, namely on the date of approval of the financial statements for the year ending 31 December 2013.

Elisabetta Magistretti resigned on 1 October 2012, on which date the Board of Directors co-opted Daniele Piccolo to replace her.

As at 31 December 2012, the committee is made up of the following Directors:

Office	Name and surname
Independent Director	Cesare Vecchio
Chairman of the Committee	
Independent Director	Daniele Piccolo
Independent Director	Marco Agliati

In addition to assisting the Board in the operations listed in the relevant section, the committee has the job of:

- a) verifying, jointly with the person in charge of drawing up the accounting documents and after consulting the independent auditing firm and the board of auditors, correct use of the accounting principles and their consistency for the purpose of drawing up the consolidated financial statements;
- b) expressing an opinion on specific aspects concerning identification of the main corporate risks;
- c) examining the interim reports on the internal control and risk management system and those of particular importance prepared by the Internal Audit department;
- d) monitoring the independence, adequacy, efficiency and effectiveness of the Internal Audit department;
- e) asking the Internal Audit department to conduct assessments on specific operating areas, duly informing the Chairman of the Board of Auditors thereof;
- f) reporting to the Board, at least twice a year, at the meetings held to approve the annual and half-yearly financial reports, on the activity carried out and the appropriateness of the internal control and risk management system;
- g) expressing an opinion on the performance of the tasks entrusted to the Board by the internal control and risk management code, which opinion is binding for decisions concerning the appointment, revocation, remuneration and resources allocated to the Internal Audit Manager.

This Committee has access to the corporate information and functions required to perform its tasks, and can use external consultants, as established by the Board of Directors.

Following the enactment of Legislative Decree no. 39/2010, which identifies the Board of Auditors as the "internal control and auditing committee", some of the supervisory functions attributed to the Internal Control and Risk Management Committee are shared with the Board of Auditors and are carried out in a coordinated manner.

The Board of Directors has also attributed to the Internal Control and Risk Management Committee the tasks and functions that the new regulation on transactions with related parties assigns to independent directors, in particular the task of preliminarily examining the procedure adopted by the Company (and any changes to it) and executing it.

In 2012 the committee held 5 meetings, averaging an hour and a half each and attended by all the members.

The Secretary of the Board of Directors acted as Committee Secretary and minutes of all meetings were taken and filed.

The meetings were also attended by the person in charge of internal control (a figure no longer contemplated in the current version of Code of Conduct) and, when requested by the committee itself, members of the departments involved in the Internal Control System and representatives of the Auditing Firm, for specific matters included in the agenda. In accordance with the Code of Conduct, the committee meetings were also attended by the Director in charge of the internal control and risk management system, the Designated Executive Officer, the Chairman of the Board of Auditors, and sometimes the entire Board of Auditors.

The Committee examined the following matters, among other things, during their meetings:

– the draft financial statements and the consolidated financial statements for 2011, the 2012 half-yearly financial report, the interim business reports and the auditing results regarding the financial statements and the half-yearly report;

– the 2012 Audit Plan, the state of progress of auditing activities and results, and the structure of the Company's internal control system.

The Committee has met twice so far in 2013. Further meetings will be held throughout the year at least every three months.

## **11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

In drawing up the strategic, industrial and financial plans, Gefran's Board of Directors assessed the nature and level of risks compatible with its strategic objectives. The Board also drew up guidelines for the internal control and risk management system, in order to achieve compatibility between the risks monitored and the strategic objectives identified.

During 2012, the Board also assessed the appropriateness of its internal control and risk management system based on the characteristics of the company and the specific risks connected with its activity and perceived by the Company as significant.

The assessment was conducted by generating a Risk Model made up of categories of internal and external risks, identified according to corporate objectives and subsequently classified according to the risk level perceived by Top Management, intended as a combination of the probability of occurrence and the impact of the event.

This analysis enables the Company to calibrate the internal control system and efficiently equip and organise areas which, due to the number and criticality of the risks identified, can have a significant impact on corporate targets.

The 2012 Audit Plan was drawn up on the basis of the internal and external risk assessment conducted by Top Management.

### **Main features of the existing internal control and risk management system in relation to the corporate reporting process**

The internal accounting control system adopted by the Companies and its subsidiaries consists of a series of rules, administrative and accounting procedures and organisational structures, aiming to achieve - via an adequate process of identifying measuring, managing and monitoring the main risks – the set objectives relating to the financial information process, such as completeness, reliability, accuracy, truthfulness and timeliness of reporting.

The internal accounting control system encompasses the following roles:

- the Designated Executive Officer, who is in direct charge of the control model pursuant to Law no. 262/2005 and the related administration and accounting procedures, which consists of updating it regularly with regard to aspects associated with financial reporting risk assessment and regulatory issues, and of verifying the effectiveness of the underlying procedures;
- the Chief Executive Officer of the Company, in his capacity as Director in charge of the internal control and risk management system;
- the process managers and Financial Controllers of the following subsidiaries, who play a direct role in executing the control procedures, applying the administrative and accounting procedures, implementing the measures in the improvement plan and issuing the necessary statements, and an indirect role in updating the system of procedures, in concert with the Designated Executive Officer;
- the Internal Audit department, which is currently involved directly in verifying and following up improvement actions. Overall monitoring of the improvement plan is the responsibility of the Designated Executive Officer.

Pursuant to art. 154-bis of Legislative Decree no. 58/1998 (the “TUF”), which was introduced by Law no. 262/2005 and envisages the figure of a Designated Executive Officer charged with drawing up the Company’s accounting documents (the “Designated Executive Officer”), Valentina Montanari, the Chief Financial Officer, has taken on the role of Designated Executive Officer as of 2 August 2012, after a positive assessment by the Internal Control and Risk Management Committee and with the favourable opinion of the Board of Auditors.

In 2007 the Board of Directors implemented general procedural provisions, agreed on previously with the Designated Executive Officer, covering the activities which this officer is required by law to perform, with particular regard to the means and powers granted to him/her, with reference to both the Company and its subsidiaries (including the possibility of the Designated Executive Officer using the Internal Audit department to carry out major checks, inspections and other audits within the limits of its independent functions and activities).

Gefran implements a series of administrative and accounting procedures to implement an internal control system that provides reliable financial reporting.

The Company adopts policies, procedures and operating instructions to guarantee an effective flow of information from the subsidiaries. They include the Group's accounting manual (rules for using and applying the accounting principles), procedures for creating and disclosing financial information, and other procedures for drawing up the consolidated financial statements and the interim financial reports (including the plan of accounts, the consolidation procedure and the procedure covering transactions between related parties). All the policies, procedures and operating instructions can be accessed by the subsidiaries via the Group's intranet system or the computer network.

The information technology processes are managed via a specific policy of segregation-of-duties access control.

The following reference models were adopted at the design and executive stages: the COSO Report (Committee of Sponsoring Organization of the Treadway Commission Report) and the COBIT (Control Objectives for IT and related technology), both recognised by international best practices standards.

The Company makes specific reference to the COSO framework to identify the main risks and, consequently, the main controls to implement to mitigate the risks identified and ensure efficient operation of the internal control system.

The strategically important companies were identified by means of a risk assessment based on quantitative criteria and using various parameters of economic and financial relevance. Qualitative criteria can also be adopted when considering internal and external, operating and business risks, which can have a significant effect on financial reporting in the absence of suitable controls. This is done with reference to the methods drawn up by Enterprise Risk Management.

As with the Parent Company, for each of the group's subsidiaries, the effectiveness of previously identified key controls is assessed independently by the Internal Audit department, and the Designated Executive Officer within the framework of her specific functions. The areas of improvement identified are illustrated by the Chief Executive Officer, the Internal Control and Risk Management Committee and the Board of Auditors.

Jointly with each subsidiary, an agreed plan of action was drawn up to upgrade the current control system and correct specific deficiencies identified. Implementation of agreed actions is constantly monitored by the Internal Audit department, which reports to the Chief Executive Officer, the Internal Control and Risk Management Committee and the Board of Auditors.

In order to comply with the requirements of law no. 262/05, the Company implements a centrally coordinated process for assessing the appropriateness and effectiveness of the internal control system, which by definition includes controls regarding the financial reporting area.

The General Manager and the Financial Controller of each subsidiary in the Group, as well as the heads of the main managements and central functions, are responsible for maintaining an appropriate internal control system by means of periodic assessment of key control areas, based on the criteria of efficiency and effectiveness.

The General Manager and Financial Controller of each subsidiary are required to sign a half-yearly statement confirming correct implementation of the internal control system. The signed statements are sent to the Chief Financial Officer (Designated Executive Officer) and the Chief Executive Officer.

The Designated Executive Officer ensures that top management receives, at least every six months when the mid-year and annual financial statements are drawn up, details of the implementation and monitoring of the control model pursuant to Law no. 262/2005, with reference to the results of inspections and other associated activities, in addition to interim reporting of the results of any independent checks made by the Internal Audit department.

In line with the policy of continuous improvement and upgrading, the control model pursuant to Law no. 262/2005 is currently being reviewed in order to re-examine the hierarchy of controls regarding financial reporting risks and further redefine and cyclically modulate testing activities, thereby guaranteeing its overall effectiveness.

### **11.1 Executive Director responsible for the Internal Control and Risk Management System**

The Board of Directors has appointed the Chief Executive Officer, Alfredo Sala, as the executive director responsible for supervising implementation of the internal control system. This decision appears to be in line with the provisions of the Code of Conduct, best practices and the Company's organisational structure, where the Internal Audit Department reports directly to the Board of Directors.

In performing his tasks, the executive director:

- a) identified the main corporate risks, based on the characteristics of the operations of the Company and its subsidiaries and submitted them periodically to the Board of Directors for review;
- b) implemented the guidelines drawn up by the Board of Directors, handled the planning, implementation and management of the internal control and risk management system, and constantly verified its appropriateness and effectiveness;
- c) adapted the system to changes in operating conditions, and laws and regulations;
- d) asked the Internal Audit Department to assess specific operating areas and compliance with the internal rules and procedures in running the Company's business and reported the results to the Chairman of the Board of Directors, the Chairman of the Internal Control and Risk Management Committee and the Chairman of the Board of Auditors;
- e) reported promptly to the Internal Control and Risk Management Committee (or the Board of Directors) any problems or criticalities arising in the course of his activities, or made known to him, to allow the Committee (or the Board) to take the necessary measures;
- f) designated, after consulting the Internal Control and Risk Management Committee and the Board of Auditors, the current person in charge of the Internal Audit Department and her fee.

## 11.2 Internal Audit Manager

By resolution passed on 17 December 2012, on the proposal of the Executive Director in charge of the Internal Control and Risk Management System, and after consulting the Internal Control and Risk Management Committee and the Board of Auditors, the Board of Directors appointed as the Head of the Internal Audit Department, solicitor Nicla Picchi, who acts independently and possesses the requirements of autonomy, independence, professionalism and organisation.

Nicla Picchi is not responsible for any operating areas, and is hierarchically independent of the Board of Directors in executing her mandate. She is also Chairman of the Company's Supervisory Board.

In 2012, internal auditing was coordinated by the Internal Controller, assisted by independent consultants with regard to audit plan preparation and audit execution.

This structure, however, no longer appeared to comply with the Rules of Governance in the current Code of Conduct, so the Company adopted a different organisational structure towards the end of the year, especially as regards the activities and responsibilities of the Internal Audit Department. It was decided to entrust responsibilities for the Internal Audit Department to Nicla Picchi, who, in performing her mandate, will avail herself of advice from KPMG Advisory S.p.A., a primary consulting firm.

The Executive Director in charge of the Internal Control and Risk Management System, jointly with the Board of Directors, deemed it necessary to give mandate to independent subjects possessing the necessary skills and experience, as the size of the Gefran Group is not sufficient to effectively sustain its own Internal Audit structure.

By resolution passed on 13 February 2013, on the proposal of the Executive Director in charge of the Internal Control and Risk Management System, and after consulting the Internal Control and Risk Management Committee and the Board of Auditors, the Board of Directors approved the fee payable to Nicla Picchi for her duties as head of the Internal Audit Department and guaranteed the availability of adequate resources. The Board also approved the fee for the independent consultants operating in support of the Head of the Internal Audit Department.

The 2013 Audit Plan was approved during the same session.

The purpose of the plan is to provide the existing Internal Control and Risk Management System with adequate internal auditing activities, concentrating the work in areas which, due to the number and criticality of the risks identified, can have a significant impact on company targets.

The Head of the Internal Audit Department, either in person or via the designated consulting firm:

- verifies, both continuously and in relation to specific needs in compliance with the international standards, the operation, implementation and appropriateness of the internal control and risk management system, using the audit plan approved by the Board of Directors, which is based on a structured analysis of the main risks;
- has direct access to all the information required to carry out her duties;

- draws up period reports detailing her activities, the risk management methods used and fulfilment of the plans drawn up to limit risks, as well as an assessment of the suitability of the internal control and risk management system, and submits them to the Chairman of the Board of Directors, the Chairman of the Internal Control and Risk Management Committee and the Chairman of the Board, as well as to the Director in charge of the internal control and risk management system;

The following activities were carried out in 2012:

- conduction of the audits envisaged in the 2012 work plan;
- proposal of solutions to any observations made;
- verification of the measures taken to fulfil requirements identified during previous audits or risk assessments;
- assessment of any other risk factors and measures to introduce as the result of changes in the organisation or the applicable law.

### **11.3 Organisational Model pursuant to Legislative Decree no. 231/2001**

At the meeting held on 13 February 2008, the Board of Directors resolved to adopt its own Model in accordance with Legislative Decree 231/2001.

A series of reviews and updates resulting in the latest version were approved by the Board on 13 November 2013, the main changes being made to adapt the model to new laws in force.

The review of the Model took into account the extension of the Companies' administrative liability to the committing of new crimes, and changes in the Company's organisational structure after adoption of the new Model.

The Company has drawn up a new Model that complies with the guidelines emerging from the analysis and mapping of company processes at risk of crime, is consistent with the characteristics of the Company and fulfils the effectiveness requirements specified by law.

The revised Model adopted by the Company comprises the following documents:

a) Code of ethics, which sets out the general principles of behaviour (transparency, correctness and loyalty, pursuant to Legislative Decree 231/2001 on which corporate business is based, and indicates the aims and key values of the business activities. This document is published in the Investor Relations / Corporate Governance section of the website [www.gefran.com](http://www.gefran.com) and on the Company's intranet system.

b) Organisational Model, which consists of a General Part detailing the contents of the Legislative Decree and the aims of the Model, and a Special Part, containing general rules to be followed by the recipients of the Model, a list of the areas of at-risk activities and various sections dedicated to the main crime categories. This document is published in the Investor Relations / Corporate Governance section of the website [www.gefran.com](http://www.gefran.com) and on the Company's intranet system.

c) Manual of Procedures, which regulates the following for all the main risk areas mapped:

- roles and responsibilities of the subjects involved;
- procedures for making decisions and issuing authorisations;
- method for managing and controlling at-risk activities.
- The document is published on the company intranet.

The Board of Directors has also appointed a Supervisory Board consisting of an external member (Nicla Picchi) and an internal member (Marzia Stanzani, Head of Legal and Corporate Affairs), and provided it with regulations and appropriate means of operation.

On 13 February 2013, the Board of Directors appointed the independent director Marco Agliati to the Supervisory Board, the aim being to add a third member with technical skills and, more importantly, a good knowledge of the administration and control systems, in accordance with best practices and the Confindustria Guidelines. The Supervisory Board also calls upon external collaborators to perform the risk assessments required.

The Supervisory Board has the task of monitoring the implementation of and compliance with the Model. It is also responsible for encouraging the Board of Directors to make the necessary changes to the Model in the event of changes in the legal framework, the methods of implementation and the type of business activities. The Supervisory Board reports its verification activities and the results to the Board of Directors, the Internal Control and Risk Management Committee and the Board of Auditors.

Gefran's Board of Directors decided not to assign the function of the Supervisory Board to the Board of Auditors.

#### **11.4 Auditing firm**

Independent auditing is carried out by a company appointed by the General Assembly from among those in the official list held by CONSOB.

The currently auditing firm is BDO S.p.A., which was designated at the general meeting held on 26 April 2007 to conduct a statutory audit of the consolidated and individual financial statements pursuant to arts. 14 and 16 of Legislative Decree no. 39 of 27 January 2010, and a limited audit of the abbreviated consolidated half-yearly financial report, for the financial years 1007-2015.

As required by law, the assignment granted was based a motivated proposal put forward by the Board of Auditors following its conduction of an in-depth technical and economic evaluation.

#### **11.5 Executive Officer in charge of drawing up the accounting documents**

The Board of Directors, after consulting the Board of Auditors, appoints the Executive Officer in charge of drawing up the accounting documents and determines his/her fees and term of office. It also ensures that the Executive Officer has the powers and means required to perform the duties attributed to him/her under art. 154-bis of Legislative Decree no. 58/98, and that the administration and accounting procedures are complied with.

The Executive Officer must be in possession of the professional requisites of at least three years' qualified experience of administration and control activities or managerial or advisory functions, including the drawing up and assessment of accounting and corporate documents, with listed companies and/or groups of companies, or companies, entities and businesses of a significant size and importance.

On his/her appointment, the Board ascertains the existence of the requisites prescribed by law and these Articles of Association.

On 2 August 2012, the Gefran Board of Directors, with the favourable opinion of the Board of Auditors, appointed Valentina Montanari, the Group's Chief Financial Officer, as the Designated Executive Officer in charge of drawing up the accounting and corporate documents pursuant to 154-bis of Legislative Decree no. 58/98.

The Designated Executive Officer, jointly with the Chief Executive Officer, issues a specific report stating the adequacy and efficient implementation of the administrative and accounting procedures, the correspondence of these documents with the corporate accounting records and their ability to provide a true and fair representation of the equity and economic and financial position of the Company and the companies included in the consolidation. This report must be attached to the financial statements, the consolidated financial statements and the abbreviated half-yearly financial report.

The Designated Executive Officer also issues a statement certifying that the interim accounting reports (e.g. interim financial reports and press releases to the market) correspond to the documents, books and accounting records of the Company and the companies included in the consolidation.

The Designated Executive Officer has the means and powers to:

- directly access information for the production of accounting data;
- establish direct contacts with the Auditing Firm, the Internal Control and Risk Management Committee and the Board of Auditors;
- acquire, control and verify information and news at equivalent or higher hierarchical levels, and also at lower non-subordinate levels; the same powers can be exercised in respect of subsidiaries and the corporate hierarchies of the companies included in the consolidation;
- use internal communication channels to ensure correct information between the group's companies;
- use all the offices, facilities and specialised personnel under Control, Finance and Legal management;
- propose/assess all the procedures implemented within the Company;
- draw up administrative and accounting procedures;
- acquire management control tools, including computer equipment (hardware and software), up to a spending limit of €25,000.00;
- duly assign responsibilities and timescales for collecting and verifying information;
- make use of independent specialist advice to address specific issues, and grant professional assignments up to a spending limit of €50,000.00;
- attend conferences, training seminars and refresher courses;
- convene personnel, at her own discretion, to update and train them and raise awareness of their obligations.

### 11.6 Coordination between persons in charge of the Internal Control and Risk Management System

By means of regular meetings and information flows, the Company co-ordinates all the subjects involved in the internal control and risk management system (Board of Directors, the person in charge of the internal control and risk management system, the Internal Control and Risk Management Committee, the Internal Audit Manager, the Designated Executive Officer in charge of drawing up the corporate accounting documents, the Board of Auditors, other corporate functions with specific tasks in relation to internal control and risk management) in order to maximize the efficiency of the internal control and risk management system put in place by the Company and allow a uniform evaluation of it.

## 12. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

At the meeting held on 12 November 2010, the Board of Directors of Gefran approved the "Rules on transactions with related parties", in accordance with CONSOB Resolution no. 17221 of 12 March 2010. This Regulation is published under Investor Relations on the website [www.gefran.com](http://www.gefran.com).

The Rules are based on the general principles of:

- 1) ensuring transparency and fairness in substance and procedure when conducting transactions with related parties;
- 2) providing members of the Board of Directors and the Board of Auditors with appropriate tools for assessing, controlling and reaching decisions on transactions with related parties.

The Rules are structured as follows:

- **Part one:** definitions (related parties, major and minor transactions, inter-company and ordinary transactions, ones of a negligible amount, etc.);
- **Part two:** procedures for approving major and minor transactions, exceptions;
- **Part three:** disclosure obligations.

For details and comments on transactions with related parties, refer to the section entitled "Transactions with related parties" in the notes to the financial statements for the year.

The procedure was updated during 2012 to improve some of the definitions contained therein.

## 13. APPOINTMENT OF AUDITORS

Article 23 of the Articles of Association, which was last amended by board resolution on 1 October 2012 to guarantee, pursuant to law no. 120/2011, a gender balance in the composition of the governing bodies, states:

*"The Board of Auditors comprises three Statutory Auditors and two Deputy Auditors.*

*Auditors hold office for three financial years, up to the General Assembly convened to approve the financial statements covering the last year of their period of office, and they are eligible for re-election. Their fee is determined by the Meeting for the whole period in which they hold office.*

*Auditors must possess the requisites established by the law and other applicable provisions. As regards the requisite of professional qualification, the subjects and business sectors strictly associated with that of the Company are: electronic automation for the sensor manufacturing industry and components for industrial automation.*

*The maximum number of administration and auditing assignments established by the CONSOB Regulation also applies to the Board of Auditors.*

*The Board of Auditors is elected by the General Assembly from lists presented by the Shareholders, according to the procedure detailed in the following subsections, subject to different and further provisions established by mandatory laws or statutory provisions.*

*The minority – provided it has no significant direct or indirect connections pursuant to art. 148, subsection 2 of Legislative Decree no. 58/1998 and associated regulatory standards - is entitled to elect a Statutory Auditor as Chairman of the Board, and a Deputy Auditor. The election of minority auditors takes place at the same time as the election of the other members of the Board of Auditors, subject to cases of replacement, which are detailed below.*

*A list of candidates for the post of auditor may be presented by Shareholders who, when the list is presented, hold – alone or together with other presenting shareholders - a shareholding equal to that established by CONSOB pursuant to art. 147-ter, subsection 1, of Legislative Decree no. 58/1998 and the provisions of the Issuers Regulation approved under resolution no. 11971 of 1 May 1999 and subsequent amendments.*

*The lists must be presented to the registered office at least twenty-five days prior to the date set for the General Meeting called to appoint the Auditors and will be published pursuant to regulations in force at least twenty-one days prior to said date.*

*The lists must contain the names of one or more candidates for the post of Statutory Auditor and one or more candidates for the post of Deputy Auditor. The candidates' names are progressively numbered and must not exceed the number of members to be elected.*

*If mandatory gender division criteria are applicable, each list presenting at least three candidates must contain a number of candidates of the less represented gender at least equal to the minimum number required by the provisions of applicable law.*

*The lists must also contain, within them or attached thereto, the information, statements and other documents required by law and the applicable regulatory standards.*

*If at the deadline for presenting the lists only one list or lists presented by Shareholders having connections between the applicable provisions are presented, lists can be presented up to the deadlines set by the applicable law. In such cases, the deadlines envisaged above for presenting the lists are reduced by half.*

*A Shareholder may not present or vote more than one list, whether directly, indirectly or through trust companies. Shareholders belonging to the same group and ones entering a Shareholders' agreement covering the issuer's shares may not present or vote more than one list, whether directly, indirectly or through trust companies. A candidate may only be present in one list, under penalty of ineligibility.*

*Auditors are elected as follows: (i) from the list obtaining the highest number of votes (the “Majority List”) are taken, according to the progressive number under which they are listed, two Statutory Auditors and one Deputy Auditor; (ii) from the list that obtained the second highest number of votes and which is not directly or indirectly connected with the Shareholders who presented or voted the Majority List pursuant to the applicable provisions (the “Minority List”) are taken, according to the progressive number under which they are listed, one Statutory Auditor, who is appointed Chairman of the Board of Auditors (the “Minority Auditor”) and one Deputy Auditor (the “Deputy Minority Auditor”). If there is a tied vote between lists, the one presented by Shareholders with the largest shareholding upon presentation of the list, or subordinately, the highest number of Shareholders, will prevail.*

*If, in the Board of Auditors thus formed, a statutory auditor of the less represented gender is not present, if imposed by the provisions of the applicable law, the last candidate elected in the majority list will be replaced by the first non-elected candidate in the list belonging the less represented gender. If this is not possible, the statutory auditor of the less represented gender will be appointed by the general assembly, with the ordinary majorities established by law, in replacement of the last candidate in the single list.*

*If only one list has been presented, the Meeting votes that list, and if the list obtains a relative majority of votes, not counting abstentions, all the candidates for these posts who appear in the list will be elected as Statutory and Deputy Auditors. The Chairman of the Board of Auditors is the first candidate for the post of Statutory Auditor.*

*If, in the Board of Auditors thus formed, a statutory auditor of the less represented gender is not present, if imposed by the provisions of the applicable law, the statutory auditor of the less represented gender will be appointed by the General Assembly with the ordinary majorities established by law, in replacement of the last candidate in the single list.*

*If there are no lists, the Board of Auditors and the Chairman are appointed by the General Assembly with the ordinary majorities established by law, subject to the obligation to appoint at least one statutory auditor of the less represented gender, where this is required by the provisions of the applicable law.*

*If the post of Majority Auditor becomes vacant for any reason, he/she is replaced by the Deputy Auditor taken from the Majority list.*

*If the post of Minority Auditor becomes vacant for any reason, he/she is replaced by the Deputy Auditor taken from the Minority list.*

*When the Meeting is called upon to make up the Board of Auditors, in replacement of auditors elected from the Minority List, the ballot requires a relative majority, which will not include the votes of Shareholders who, according to the statements rendered in accordance with current provisions, hold, directly, indirectly or jointly with other Shareholders who have entered into a relevant Shareholders’ Agreement pursuant to art. 122 of Legislative Decree no. 58/1998, a relative majority of votes exercisable at the Meeting, and of Shareholders who control, are controlled by or are subject to joint control of the same.*

*In this case, too, the new Minority Auditor is designated Chairman of the Board of Auditors.*

*In the event of replacement of a statutory auditor, the gender equality obligation must be fulfilled in accordance with the provisions of the applicable law.*

#### **14. COMPOSITION AND OPERATION OF THE BOARD OF AUDITORS (art. 123-bis, subsection 2, letter d), TUF**

The Board of Auditors in office as at 31 December 2012 was appointed at the general shareholders' meeting held on 23 April 2012 using the list system, in particular with only the Majority List submitted by the shareholder Fingefran S.r.l. on 29 March 2012, which held a total of 8,164,080 Gefran S.p.A. ordinary shares, equal to 56.695% of the share capital.

The current Board will remain in office until the date of approval by the General Assembly of the financial statement as at 31.12.2014.

The list contained the following candidates:

##### Statutory Auditors

1. Eugenio Ballerio, born in Brescia on 26 January 1938
2. Ernesto Bino, born in Iseo (Brescia) on 11 January 1940
3. Enrico Broli, born in Bovezzo (Brescia) on 14 December 1944

##### Deputy Auditors

1. Guido Ballerio, born in Brescia on 10 December 1968
2. Rossella Rinaldi, born in Iseo on 10 December 1973

The above list received 8,925,735 votes, representing 61.98% of the voting share capital.

Following the appointment of the new administrative body, the deputy auditor Eugenio Quarantini left office on 23 April 2012.

#### **Personal and professional profile of each auditor**

Below is a brief profile of each auditor, providing personal details, qualifications and experience in business management.

**Eugenio Ballerio** graduated in Business Economics from Bocconi University in Milan in 1963. He qualified to practise the profession of chartered accountant in 1964 and was entered in the Register of Certified Public Accountants in 1967. He enrolled in the Register of Auditors under number 3145, pursuant to Ministerial Decree of 12.04.1995, published in Official Bulletin no. 31-bis of 21.04.1995. He has worked as a chartered accountant since 1964, specialising in business and tax consultancy. He has held numerous offices in banking and insurance institutions and is currently Chairman of the Board of Auditors of UBI Sistemi and Servizi S.c.p.A., Statutory Auditor at UBI Banco di Brescia San Paolo CAB S.p.A. and Auditor at the Banca San Paolo Foundation.

**Enrico Broli** graduated in Business Economics in 1969. He entered the Register of Chartered Accountants in 1970 and enrolled in the Register of Auditors under the Ministerial Decree of 12.04.1995, published in Official Bulletin no. 31-bis of 21.04.1995. He has worked as a chartered accountant since 1970, specialising in business, tax, finance, contracts and insolvency proceedings. He is the Chairman of the Poliambulanza hospital foundation in Brescia and holds numerous offices as chairman of the board of auditors and statutory auditor in trading and investment companies.

**Ernesto Bino** has worked as a chartered accountant since 1967, when he enrolled in the Brescia Register of Chartered Accountants. He entered the Register of Auditors in 1998. He teaches Management and Organisation of Economy of Culture, Entertainment and Communication at the Catholic University in Brescia. He has worked as a consultant and auditor for numerous companies and institutions.

In 2012 the Board of Auditors met 6 times, with an average meeting duration of two hours and an average attendance of 100%. The Chairman of the Board of Auditors played an active role in all the meetings held by the Control and Risk Committee and encouraged a timely exchange of information relevant to their tasks.

The same number of meetings is scheduled for 2013 and so far the Board of Auditors has already met twice.

The Board of Auditors verifies the requisite of independence of its members at the time of their appointment and annually assesses the existence of the required requisites.

In carrying out the above assessments, the Board applies the criteria envisaged by the Code of Conduct with regard to the independence of the directors, as well as further requisites of independence provided by art. 148, subsection three, of Legislative Decree no. 58/98.

Moreover, in accordance with art. 8.C.3 of the Code of Conduct, any auditor who, on his/her own behalf or on behalf of third parties, has an interest in any of the Company's transactions, must promptly inform the other auditors and the Chairman of the Board of Auditors of the nature, terms, source and extent of his/her interest.

Pursuant to the law, the statutory audit is assigned to an independent auditing firm, which is subject to the audit regulations governing listed companies and surveillance by CONSOB.

The Board of Auditors is therefore responsible for supervising compliance with the law and the memorandum of association, as well as observance of the principles of good management in carrying out the corporate activities and monitoring the appropriateness of the Company's organisational structure, internal control system and administrative and accounting system.

Following the entry into force of Legislative Decree no. 39/2010, the Board of Auditors has been identified as the "internal control and auditing committee" with supervisory functions regarding the financial reporting process, the effectiveness of the internal control, internal audit and risk management systems, statutory audits of annual accounts and consolidated accounts, and the independence of the statutory auditor.

In performing its tasks, the Board of Auditors works in concert with the Internal Audit Department and the Control and Risk Committee, by means of information flows and, more importantly, the Chairman of the Board of Auditors' regular attendance at committee meetings.

Pursuant to the recommendations of art. 2.C.2 of the Code of Conduct (the so-called Induction Programme), the Chairman ensures that the directors and auditors can take part in initiatives designed to improve their knowledge of the sector in which the issuer works, as well as corporate dynamics and their evolution. This takes place in the form of Company visits and meetings with commercial and technical top management.

## **15. RELATIONS WITH SHAREHOLDERS**

The Company considers it essential to dialogue with the shareholders and stakeholders and it has therefore appointed Giovanna Franceschetti as Investor Relator, who reports directly to the Chief Executive Officer and works in concert with Administration, Finance, Control and Corporate and Legal Affairs Management.

Communication with the investors is maintained via the Company's website ([www.gefran.com](http://www.gefran.com)), where an easily identifiable section contains details of the Group's structure and the corporate boards, press releases, the calendar of company events, financial data and interim and annual financial reports, corporate governance and all the documentation deemed useful for an in-depth knowledge of the Company and the conscious exercise of shareholders' rights.

The Investor Relator periodically sends the mailing list subscribers updates of this website area and informative reports sent to Borsa Italiana S.p.A. and CONSOB.

The Investor Relator maintains regular contacts with investors and organises collective or one-to-one meetings in Milan and the main financial centre is Italy and abroad.

The Investor Relations section on the corporate website also contains documents for use by the financial community.

Investor enquiries can be sent to the Investor Relator's office:

Giovanna Franceschetti  
74 Via Sebina  
25050 Provaglio d'Iseo  
Tel. (0039) 030 9888.1  
Fax: (0039) 030 9888300  
[g.franceschetti@gefran.com](mailto:g.franceschetti@gefran.com)

## 16. GENERAL SHAREHOLDERS MEETINGS (art. 123-bis, subsection 2, letter c), TUF)

General shareholders meetings are called in accordance with the law and the Articles of Association by notice published in general at least thirty days prior to the date established for the meeting on first call, or at least forty days prior to the date established for meetings called to elect the members of the board of directors and board of auditors, and in other cases prescribed by law according to the items on the agenda.

The notice of call shall contain the date, time and place of the meeting and the list of items to be discussed.

The notice of call shall also contain at least a description of the procedures the shareholders must comply with in order to participate and exercise their right to vote at meetings, as well as information regarding (i) the right to ask questions at the meeting, (ii) the terms and procedures for exercising the right to supplement the agenda, (iii) the procedure for the exercise of proxy voting.

The General Assembly may not pass resolutions on matters not included on the agenda.

Shareholders who, individually or jointly, represent at least one fortieth of the share capital may ask, within five days of the publication of the notice of call, to supplement the list of items on the agenda, providing details of the proposed items to be discussed.

The General Assembly is competent to decide – in both ordinary and extraordinary sessions – on matters reserved to it by law or by the articles of association, as well as matters that the Board deems convenient to be examined by the Assembly.

In accordance with Gefran's Articles of Association, the Board of Directors is granted powers to resolve, subject to the limits of law:

- mergers in the cases specified in arts. 2505 and 2505-bis of the Civil Code;
- setting up and closure of secondary offices;
- capital decreases if any shareholders withdraw;
- adaptation of the Articles of Association and the Regulation to current provisions of law;
- transfer of the registered office within national borders.

General Shareholders Meetings are called by the Board of Directors by means of public notice, published in the Official Bulletin of the Italian Republic, the daily newspaper *Il Sole 24 Ore* or the daily *Finanza e Mercati*, as and how prescribed by law, and a third call may be envisaged for extraordinary meetings.

When a General Meeting is called to appoint directors and auditors, when required by law and/or the regulations in force from time to time, the notice of meeting must specify the quorum required to present lists of candidates and the calculation criteria used, subject to compliance with all other legal requirements.

Meetings may be held outside the Company's registered office, as long as the location is in Italy.

Ordinary and extraordinary meetings are held and resolutions are passed in compliance with the applicable law.

The Company has drawn up a regulation to ensure that meetings are conducted in a smooth and orderly manner. It can be consulted in the Investor Relations / Shareholders Meetings section of the corporate website [www.gefran.com](http://www.gefran.com).

The provisions of law apply to representation at meetings.

The mandate shall be notified to the Company in electronic form, in accordance with the rules laid down in the applicable ministerial regulations.

The Board shall provide shareholders with the information needed to make decisions pertaining to the general assembly with full knowledge of the facts. Pursuant to art. 127-ter of Legislative Decree no. 58/98, the shareholders are entitled to pose questions relating to the agenda up until two days prior to the meeting by sending a registered letter to the Company's registered office or the registered electronic email address [gefran@legalmail.it](mailto:gefran@legalmail.it), together with a statement certifying that the party in question is eligible to attend and vote at meetings, or a certificate issued by the brokers holding the shares owned by such shareholders. The Company is entitled to answer such questions during the shareholders meeting at the latest.

The Chairman of the Meeting controls the debate, giving the floor to the directors, auditors and anyone requesting to speak. Each shareholder is entitled to intervene once only on each item on the agenda. In order to encourage the widest possible participation, the time allowed for each intervention must be limited as a rule to ten minutes. Replies are allowed, but they shall not exceed five minutes each. At the end of the debate, only brief voting is allowed.

The meeting held on 23 April 2012 was attended by all the directors.

No significant changes to the Issuer's share market capitalisation or company structure occurred during the year.

## **17. CHANGES OCCURRING AFTER THE END OF THE YEAR**

No changes of note have occurred since the end of the financial year.

Provaglio d'Iseo, 13 March 2013

*Ennio Franceschetti*

*Chairman of the Board of Directors*

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL				
Type of shares	No. of shares	% of share capital	Listed	Rights and obligations
Ordinary shares	14,400,000	100	STAR	ordinary

MAJOR SHAREHOLDINGS		
Shareholder	Nominal value	% on share capital
FINGEFran S.R.L.	8,164,080	56.695
FRANCESCHETTI GIACOMO	514,867	3.,58
FRANCESCHETTI ENNIO	502,158	.
Albemarle Asset Management Limited	306,987	2.13

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES**

Board of Directors											Control and Risk Committee		Remuneration Committee	
Office	Members	Holding office since	Holding office up until	List	Execu-tives	Non-executives	Indep. from Code	Indep. From TUF	% Board attendance	No. of other offices <sup>2</sup>	Members	% CCR participation	Members	% RC attendance
Chairman	Ennio Franceschetti	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M	X				100%	4				
Vice Chairman	Romano Gallus	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M		X			100%	2			X	100%
Chief Executive Officer	Alfredo Sala	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M	X				100%	0				
Director	Maria Chiara Franceschetti	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M	X				100%	2				
Director	Giovanna Franceschetti	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M	X				100%	2				
Director	Andrea Franceschetti	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M	X				100%	1				
Director	Cesare Vecchio	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M		X	X	X	100%	5	X	100%	X	100%
Director	Daniele Piccolo	01.10.2012	approval of the 31.12.2013 financial statements by the General Assembly	-		X	X	X	100%	1	X	100%	X	100%
Director	Marco Agliati	04.05.2011	approval of the 31.12.2013 financial statements by the General Assembly	M		X	X	X	100%	2	X	100%		
<b>Directors leaving their office during the financial year</b>														
Director	Elisabetta Magistretti	04.05.2011	01.10.2012	M		X	X	X	100%	2	X	100%	X	100%
<b>Quorum required for presenting the lists on the last appointment: 2.5%</b>														
<b>Number of meetings held in the period: BoD=6; RCC=5; RC=1</b>														
Director	Other offices held		Company											
Ennio Franceschetti	Director		CSMT S.c.a.r.l. SIMAF S.r.l. Francesco Franceschetti Elastomeri S.r.l. CEI - Comitato Elettrotecnico Italiano Ensun S.r.l. (Gruppo Gefran) Elettropiemme S.r.l. (Gefran Group) Gefran Benelux (Gefran Group)											

<sup>2</sup> excluding the companies in the Gefran Group

		Gefran Brasil (Gefran Group) Gefran Deutschland (Gefran Group) Siei Areg (Gefran Group) Gefran France (Gefran Group) Gefran Inc. (Gefran Group) Gefran India (Gefran Group) Gefran Siei Asia (Gefran Group) Gefran Siei Drives Technology (Gefran Group) Gefran Siei Electric (Gefran Group) Gefran Suisse (Gefran Group) Gefran UK (Gefran Group)
Romano Gallus	Director	GV Stamperia S.p.A. GIFIN S.a.s.
Alfredo Sala	Director	Gefran Siei Asia (Gefran Group) Gefran Siei Drives Technology (Gefran Group) Gefran Siei Electric (Gefran Group) Gefran-Enertronica SA (Gefran Group)
Maria Chiara Franceschetti	Director	Fingefran S.r.l. Finmag S.r.l. Gefran France (Gefran Group) Gefran-Enertronica SA (Gefran Group)
Giovanna Franceschetti	Director	Finmag S.r.l. Caterina S.r.l. Ensun S.r.l. (Gefran Group) BS Energia 2 S.r.l. (Gefran Group) Gefran Deutschland (Gefran Group) Siei Areg (Gefran Group) Gefran France (Gefran Group) Gefran Inc. (Gefran Group) Gefran India (Gefran Group) Gefran Siei Asia (Gefran Group) Gefran Siei Drives Technology (Gefran Group) Gefran Siei Electric (Gefran Group)
Andrea Franceschetti	Director	Finmag S.r.l. Gefran Benelux (Gefran Group) Gefran Brasil (Gefran Group) Gefran UK (Gefran Group)
Cesare Vecchio	Director	Selex Galileo S.p.A. Finsteel Milano S.p.A. Società di partecipazioni S.p.A. Società di Partecipazioni Investimenti S.p.A. Farmol S.p.A.
Daniele Piccolo	Director	Banca Albertini Syz & . S.p.A.
Marco Agliati	Director	SIRTEC NIGI S.p.A. SITIP S.p.A.

**TABLE 3: STRUCTURE OF THE BOARD OF AUDITORS**

Structure of the Board of Auditors							
<i>Office</i>	<i>Members</i>	<i>Holding office since</i>	<i>Holding office up until</i>	<i>List</i>	<i>Indep. from Code</i>	<i>% attendance</i>	<i>No. of other offices</i>
Chairman	Eugenio Ballerio	23.04.2012	approval of the 31.12.2014 financial statements by the General Assembly	M	X	100	16
Statutory Auditor	Enrico Broli	23.04.2012	approval of the 31.12.2014 financial statements by the General Assembly	M	X	83,3	23
Statutory Auditor	Ernesto Bino	23.04.2012	approval of the 31.12.2014 financial statements by the General Assembly	M	X	100	11
Deputy Auditor	Guido Ballerio	23.04.2012	approval of the 31.12.2014 financial statements by the General Assembly	M	X	-	-
Deputy Auditor	Rossella Rinaldi	23.04.2012	approval of the 31.12.2014 financial statements by the General Assembly	M	X	-	-
Auditors leaving their office during the financial year							
Deputy auditor	Eugenio Quarantini	23.04.2009	23.04.2013	M	X	-	-
Quorum required for presenting the lists on the last appointment: 2.5%							
Number of meetings held during the period: 6							