

# **REPORT ON CORPORATE GOVERNANCE**

in accordance with articles 124*a* of Consolidated Financial Act, 89*a* of  
Consob Issuers' Regulations and article IA.2.6 of the Instructions  
accompanying Borsa Italiana's Rules and Regulations

(administration model and traditional control)

Issuing body: PRIMA INDUSTRIE  
Website: [www.primaindustrie.com](http://www.primaindustrie.com)

Financial year on which report is based: 2007  
Date of approval of the report: 27/03/2008

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## GLOSSARY

**Code:** the Code of Conduct of listed companies approved in March 2006 by the *Corporate Governance* Committee and promoted by Borsa Italiana S.p.A

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

**Board:** the issuing body's Board of Directors.

**Issuing body:** the issuer of the listed shares to which the report refers.

**Financial Year:** year on which report is based.

**Instructions accompanying Borsa Italiana's Rules and Regulations:** Instructions accompanying the Rules of the Markets organised and managed by Borsa Italiana S.p.A.,.

**Borsa Regulations:** the Rules of the Markets organised and managed by Borsa Italiana S.p.A.

**Consob Issuers Regulations:** the regulations issued by Consob in resolution no. 11971 of 1999 regarding share issuers.

**Consob Markets Regulations:** the regulations issued by Consob in resolution no. 16191 of 2007 regarding markets.

**Report:** the report of corporate governance that companies are obliged to draw up in accordance with articles 124a of the Consolidated Financial Act, 89a of the Consob Issuers' Regulations and article IA.2.6. of the Instructions accompanying Borsa Italiana's Rules and Regulations.

**CONSOLIDATED FINANCIAL ACT:** Italian Legislative Decree No. 58 of 24 February 1998 (Consolidated Financial Act).

## **1. PROFILE OF THE ISSUING BODY**

PRIMA INDUSTRIE, with registered office in Turin, Italy, is world leader in advanced laser system technology for industrial applications.

PRIMA INDUSTRIE produces and markets high-power laser systems for cutting, welding and surface-treatment of three-dimensional (3-D) and two-dimensional (2-D) components. PRIMA INDUSTRIE S.p.A. is the parent company of a Group with approximately 770 employees, which includes PRIMA ELECTRONICS S.p.A. (numerical control units, servodrives and special products), OSAI S.p.A (numerical control for marble, wood and glass processing systems) in Italy, and PRIMA North America, Inc. (systems for the aerospace market and CO2 and Nd laser sources: YAG) in the United States. 75% of PRIMA INDUSTRIE turnover is achieved in around 50 countries. Its international presence is through a system of branches and subsidiaries (USA, France, Germany, Great Britain, Spain, Switzerland and Sweden), with agents and service centres in a further 30 European and non-European countries. Four joint ventures ensures excellent coverage of the Asian market.

Currently the Group boasts around 3000 laser systems installed with 1000 Clients in the whole of the world. The Group recently expanded by acquiring the Finnish company Finn-Power parent company of a leading group in the sheet metal sector, thus becoming a world player in the laser system and sheet metal sector.

The Company is administered by a Board of Directors composed of no fewer than three (3) and no more than nine (9) members, as determined by the Shareholders' Meeting.

On their appointment, the Ordinary Shareholders' meeting establishes the duration of their appointment, which can be for no more than three financial years, and ends on the

date of the Shareholders' meeting called to approve the financial statements of their last year of appointment. Directors may be re-elected. Those over the age of 80 are not entitled to stand for appointment.

The Board of Directors is responsible for replacing directors who die during their office, according to the procedures set out in article 2386 of the civil code.

The management of the company is the exclusive responsibility of the directors, who execute the operations needed to implement the company object, without prejudice to the need for specific authorisation in the cases required by the law.

The board of directors, also the managing director, where necessary, reports to the board of statutory auditors with regard to activities carried out and the most significant economic and financial transactions made by the company and its subsidiaries, particularly with regard to those transactions involving potential conflicts of interest. Communication is to take place on a minimum quarterly basis, in person during board meetings, or in writing to the chairman of the board of statutory auditors.

The Board of Auditors is made up of three members and two deputies. Minority shareholders elect one full member and a deputy.

The board of statutory auditors is appointed on the basis of lists presented by shareholders.

Excluded from lists are candidates who are already auditors in five other listed companies, with the exclusion of controlling companies and subsidiaries of Prima Industrie S.p.A., or who do not possess the requisites of propriety and professionalism established by legislation.

Those over the age of 80 cannot be appointed to the board of auditors.

At least one of the Statutory Auditors and at least one of the Deputy Auditors must be members of the Register of Auditors and have practiced the profession for a minimum of three years.

Auditors not possessing the professional requisites set out above are chosen from among those who are registered with the professional bodies identified by decree of the Ministry of Justice, or who have acquired overall experience of at least three years in:

a) administration or control, or management duties in companies with share capital no lower than the amount established by legislation; or

b) professional practice or university lectureship in law, economics, finance and technical/scientific subjects directly related to laser technology or industrial automation and electronics or machine tools or long-term investment assets.

c) executive positions in public organisations or public authorities operating in the credit, financial or insurance sectors, or nevertheless in areas strictly related to laser technology or industrial automation and electronics or machine tools or long-term investment assets.

Outgoing Auditors may be re-elected.

**2. INFORMATION on OWNERSHIP** *(in accordance with article 123a Consolidated Financial Act)*  
**at (31/12/2007)**

**a) Structure of share capital**

Total share capital entirely subscribed and paid up:  
 €1,500,000

Share categories that make up the share capital.

	No. shares	% share capital	Listed (indicate markets) / unlisted	Rights and duties
Ordinary shares	4.600.000	100,0	Borsa Italiana MTA – STAR segm.	-
Shares with limited voting rights	-	-	-	-
Shares with no voting rights	-	-	-	-

**b) Restrictions on transfer of securities**

There are no restrictions on the transfer of securities.

**c) Significant stakes**

Declared by	Direct shareholder	% of ordinary capital	% of voting capital
The Rashanima Trust	Erste International SA	28,03	28,03
Barletta International BV	Helios Management SA	6,85	6,85

Cambria SA	Lestri Holding BV	4,67	4,67
Carbonato Gianfranco	Carbonato Gianfranco	3,79	3,79
Peiretti Domenico	Peiretti Domenico	3,00	3,00
Objectif Small Caps Europe Sicav	Objectif Small Caps Europe Sicav	2,16	2,16

**d) Securities conferring special rights**

No issued securities confer special controlling rights.

**e) Shareholdings owned by employees: procedure and mechanism for exercising voting rights**

At 31/12/2007 there is no system in place for employee share-ownership. An incentive plan was presented to the shareholders' meeting of 28-29 April 2008, reserved to a few directors and executives. For information on this proposal, please see the report presented in accordance with article 84a of the Issuers' Regulations, available on the website of the Issuing Party.

**f) Restrictions on voting rights**

There are no restrictions on voting rights.

**g) Agreements between shareholders**

No known agreements between shareholders have taken place in accordance with article 122 of the Consolidated Financial Act.

**h) Appointment and replacement of directors and amendments to the articles of association**

The ordinary shareholders' meeting is responsible for appointing directors from the lists presented by shareholders who, individually or together with other shareholders, represent the total shareholding established by legislation.

Lists presented by shareholders must be deposited at the company's registered office at least fifteen days prior to the appointed date of the first call of the shareholders' meeting.

Each shareholder, or shareholders forming part of a group in accordance with article 2359 of the civil code or who have underwritten a shareholders' agreement whose object is shares issued by the company, may not present or vote more than one list. Each candidate may be present on only one list, or else forego eligibility.

Each list can contain no more than nine candidates.

The candidates on each list must be listed by order of preference. Candidate lists must be accompanied, within the same closing date, by self-certifications of individual candidates accepting their candidacy and declaring the absence of causes for their

inelectability or incompatibility, as well as confirming possession of the regulatory and statutory requisites for office.

These declarations must be accompanied, and handed in within the same closing date, by the curriculum vitae of each candidate showing their personal and professional characteristics, and their suitability for appointment as independent candidates in accordance with article 147b, paragraph IV of Legislative Decree no. 58 of 24 February 1998 and as an independent in accordance with the codes of conduct regarding corporate governance promoted by companies managing the regulated market on which the company's financial instruments are traded. Each list containing five or more candidates must indicate at least two directors, each of which are qualified as independent in accordance with article 147b, paragraph IV, of Legislative Decree no. 58/1998 and as an independent in accordance with the codes of conduct (hereafter referred to as "Independent Directors") and at least another director qualified as independent in accordance with the aforementioned codes of conduct (hereafter "Independent Corporate Director").

In order to verify the ownership of the number of shares needed to present lists, lists must be accompanied by certificates attesting ownership.

Those lists which do not satisfy the above requirements will not be accepted.

Members of the board of directors are elected as follows:

a) from the list receiving most votes, candidates will be appointed according to the order of preference in which they are listed, up to the total number of directors to be elected, as previously established by the shareholders' meeting, minus one in the event that this total has been set at no more than seven, otherwise the number of members taken from that list will be the total number of directors to be elected, as previously established by the shareholders' meeting, minus two, in the event that this total has been set at more than seven members;

b) from the list receiving the next highest number of votes, presented and voted by individual shareholders, in accordance with article 147b, paragraph III of Legislative Decree no. 58/1998, to the shareholders that presented or voted the list with the highest number of votes, the first candidate on the list is elected as director, if the number of directors has been set at no more than seven, otherwise the first two candidates on the list are elected, if the number of directors has been set at more than seven.

In any case, for the purposes of appointment and division of directors, lists will not be considered if the percentage of votes received does not reach at least half those originally required for presentation of the list.

In the event that only one list is presented, the shareholders' meeting resolves by relative majority, and if the proposed list has obtained the majority, directors are elected in the order of preference in which they appear on the list, up to the number established by the shareholders' meeting.

If by effect of application of the above regulations, the required minimum number of independent directors in accordance with article 147b, paragraph IV of Legislative Decree no. 58/1998, is not elected, one or two independent directors will be taken from the first list, who will be elected in place of the last and the penultimate candidates elected from the same list, who are not independent directors.

If by effect of application of the above regulations, the required minimum number of independent directors, in accordance with the code of conduct regarding corporate governance promoted by companies managing the regulated market on which the company's financial instruments are traded, is not elected, the highest ranking

independent corporate director on the first list will be elected, in place of the last-ranking candidate elected from the same list, who is not an independent director.

In the event of non-presentation of lists, replacement or integration of directors on an already appointed board of directors, or in all cases where it is not possible to proceed, either partially or wholly, the shareholders' meeting resolves to appoint the directors as described above by relative majority.

On their appointment, the Ordinary Shareholders' meeting establishes the duration of their appointment, which can be for no more than three financial years, and ends on the date of the Shareholders' meeting called to approve the financial statements of their last year of appointment. Directors may be re-elected. Those over the age of 80 are not entitled to stand for appointment.

The Board of Directors is responsible for replacing directors who die during their office, according to the procedures set out in article 2386 of the civil code.

#### **i) Proxies to increase share capital and authorisation for purchase of treasury shares**

To date the board has been conferred no proxies to increase share capital in accordance with article 2443 of the civil code or to issue shares. A propose to confer proxy was submitted to the shareholders' meeting on 28-29 April 2008. Details of this can be found on the Issuing Party's website.

The shareholders' meeting authorised the purchase of treasury shares in accordance with article 2357 and subsequent of the civil code on 14/05/2007.

The resolution is valid for 18 months from the date of the shareholders' meeting and set the maximum number of treasury shares involved in the plan at 200,000 (4.35% of the total share capital consisting of 4,600,000 shares), with a maximum overall counter value of €12,000,000 and sets the minimum purchase price at the face value, while the maximum price is €60.

At 31/12/2007 Prima Industrie S.p.A. held 3,000 ordinary shares (equal to approximately 0.07% of the share capital) at an average weighted price of €29.2934 per share; these shares, however, were acquired in the performance of the mandate granted by the ordinary shareholders' meeting of 11/05/2006, which authorised the purchase and sale of up to a maximum of 200,000 of the company's treasury shares s (approximately 4.3% of the subscribed and paid-up capital). This resolution was subsequently revoked by the next shareholders' meeting held on 14/05/2007, in that the previous resolution set a maximum purchase price for shares that was lower than the market price during that period and, hence had become unusable.

#### **l) Change of Control clauses**

Neither the issuing party nor any of its subsidiaries has underwritten important agreements that come into effect, are modified or extinguished in the event of change of control in the contracting company.

**m) Directors' indemnity in the event of resignation, dismissal or termination of employment as a consequence of takeover**

No agreements have been underwritten between the issuing party and the directors providing indemnity in the event of resignations or dismissal/revocation without just cause or following termination of employment as a result of takeover.

### **3. COMPLIANCE**

The issuing party has adopted (30 November 2006) its own code of conduct, which acknowledges the principles and criteria proposed by the code of conduct, barring a few specific points. Where the company intends to diverge from the code, specific mention and motivation will be provided in this report.

A number of the issuing party's strategic subsidiaries are foreign companies and as such are not subject to Italian legislation. These provisions do not influence the structure of the issuing party's corporate governance.

### **4. MANAGEMENT AND COORDINATION ACTIVITIES**

The issuing party is not subject to management and coordination in compliance with article 2497 and subsequent of the Italian civil code.

### **5. BOARD OF DIRECTORS**

#### **5.1. COMPOSITION**

The board of directors in office at 31/12/2007 was appointed by the shareholders' meeting of 13/05/2005 for the three-year period 2005-2007 and will remain in office until approval of the financial statements to 31/12/2007.

- For more details of the personal and professional characteristics of directors (as set out in article 144-L of the Consob Issuer' Regulations) please see the annexed curricula vitae.

The board of directors at 31/12/2007 is made up as follows:

Name	Office	In office	List	Exec.	Non-	Indep.	Indep.	%	Other offices
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		since			exec.		CFA	BoD	
Gianfranco Carbonato	Chairman and Managing Director	13/05/2005	(*)	X				100	Indep. Dir. IRIDE S.p.A.
Ezio Basso	Director	28/06/2007	(*)	X				100	-
Stefano Devescovi	Director	14/05/2007	(*)		X			100	-
Sandro D'Isidoro	Director		(*)		X	X	X	100	Director – CHAMBER OF COMMERCE ITALY-SWITZERLAND (Zurich). Director- FIRST PRIVATE EQUITY LTD Director– DAYCO TELECOM C.A. (Caracas) Director- CREDIT AGRICOLE SUISSE CONSEIL (Geneva) Director, MENTICE Ab (Gothenburg)
Michael R. Mansour	Director	14/05/2007	(*)		X			100	
Mario Mauri	Director		(*)		X	X	X	73	Chairman Board of Directors- CAMBRIA Ltd Director-AEM S.p.A Director- EDISON S.p.A. Director- TRANSALPINA DI ENERGIA S.p.A. Director-DELM I S.p.A. Director-RCF SA
Domenico Peiretti	Director		(*)	X				100	-
Pio Pellegrini	Director	08/09/2005	(*)		X	X	X	100	Director-Signet Armorlite Inc (USA),
Marco Pincioli	Managing Director M&A		(*)	X				100	Director-Innogest SGR

(\*) = at the date of the shareholders' meeting which appointed the current board of directors, the list system of appointment was not yet in force.

**KEY**

**Office:** indicate whether, chairman, vice chairman, managing director, etc.

**List:** indicate M/m according to whether the director was elected from the list voted by the majority or by a minority (article 144-L of the Consob Issuers' Regulations)

**Exec.:** cross if the director can be qualified as executive

**Non exec.:** cross if the director can be qualified as non-executive

**Indep.:** cross if the director can be qualified as independent according to the criteria established by the code, specifying at the foot of the table whether these criteria have been integrated or modified (see section 5.5 of this format)

**Indep. CFA:** cross if the director possesses the requisites for independence established by article 148, paragraph 3 of the CFA (article 144-L of the Consob Issuers' Regulations)

**% BoD:** enter the director's attendance, in percentage terms, at board meetings (when calculating this percentage, consider the number of meetings in which the director has taken part, compared to the number of board meetings that have taken place during the year or after the date of appointment)

**Other offices:** Enter the overall number of offices held in other listed companies on regulated markets (including foreign markets), in financial, banking or insurance companies or large companies identified according to the criteria defined by the board. Annex the list of these companies to the report, with reference to each director, specifying whether the company in which office is held is part of the group led by the issuing party or of which it is a member.

Name	Office	EC	% EC	AC	% AC	RC	% RC	ICC	% ICC
Pio Pellegrini	Director	n/a		n/a		M	100	C	100
Sandro D'Isidoro	Director	n/a		n/a		M	100	M	100
Mario Mauri	Director	n/a		n/a		C	100	M	67

**KEY**

**EC:** executive committee; enter C/M according to whether chairman/member of the executive committee.

**% EC:** enter the director's attendance, in percentage terms, at meetings of the executive committee (when calculating this percentage, consider the number of meetings in which the director has taken part, compared to the number of meetings of the executive committee that have taken place during the year or after the date of appointment)

**AC:** appointments committee; enter C/M according to whether chairman/member of the appointments committee.

**% AC:** enter the director's attendance, in percentage terms, at meetings of the appointments committee (when calculating this percentage, consider the number of meetings in which the director has taken part, compared to the number of meetings of the appointments committee that have taken place during the year or after the date of appointment)

**RC:** enter C/M according to whether chairman/member of the remuneration committee

**% RC:** enter the director's attendance, in percentage terms, at meetings of the remuneration committee (when calculating this percentage, consider the number of meetings in which the director has taken part, compared to the number of meetings of the remuneration committee that have taken place during the year or after the date of appointment)

**ICC:** enter C/M according to whether chairman/member of the internal control committee

**% ICC:** enter the director's attendance, in percentage terms, at meetings of the internal control committee (when calculating this percentage, consider the number of meetings in which the director has taken part, compared to the number of meetings of the internal control committee that have taken place during the year or after the date of appointment)

The directors whose appointments terminated during the year are:
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Name	Office	In office from / to	List	Exec.	Non-exec.	Indep.	% % BoD	other offices
Fabrizio Lugaresi	Director	13/05/2005 – 08/05/2007			X		100	-

**KEY**

See keys of the previous two tables.

**Maximum number of offices held in other companies**

No general criteria have been set regarding the maximum number of administration and control offices held in other companies that can be considered compatible with proper execution of the role of director. Moreover, directors are invited to accept the role when they consider that they are able to dedicate the necessary time to diligent execution of their duties, also considering the number of administrative or auditing offices held in other companies listed on regulated markets (including on foreign markets), in financial, banking or insurance companies or companies or large companies. In any case, no problems were found in relation to matters connected to limited time on the board. According to the information received by directors, the board takes note on an annual basis and notifies in the report on corporate governance, the offices of director or statutory auditor held by directors in the aforementioned companies.

**5.2. ROLE OF THE BOARD OF DIRECTORS**

In the 2007 financial year, the board met 11 times, in meetings lasting an average of 3 hours.

During the current year, the board has already met 3 times and a further 4 meetings have already been planned (approval of draft financial statements and interim reports).

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As expressly indicated in point 1.C.1 of the company's code of conduct, among other things, the board of directors:

- a) examines and approves the strategic, industrial and financial plans of the issuing party and the group of which it is leader, the corporate governance system of the issuing party itself and the group structure;
- b) evaluates the suitability of the organisational, administrative and general accounting system of the issuing party and of subsidiaries of strategic

importance, as established by the managing directors, with particular reference to the internal control system and the management of conflicts of interest, based on the reports of the managing director.

- c) examines and approves in advance the transactions of the issuing party and its subsidiaries, when these transactions have strategic, economic or financial significance for the issuing party itself, paying particular attention to the situations in which one or more directors have an individual interest or represent a third party and, more generally, when these transactions are with related parties; for this purpose, it establishes general criteria for identifying significant transactions;
- d) carries out an evaluation, at least once a year, on the size, composition and functioning of the board itself and its committees, possibly providing guidelines on the professional figures whose presence on the board are considered necessary;
- e) provides information on corporate governance, and, in particular, on the number of meetings of the board, held over the financial year, and on the stake of each director.

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The board did not carry out a specific evaluation of the suitability of the organisational, administrative and general accounting system of the issuing party with particular reference to the internal control system and the management of conflicts of interest, as any related risks are sufficiently monitored by the managing director.

The board did not carry out a specific evaluation of the suitability of the organisational, administrative and general accounting system of strategically important subsidiaries, with particular reference to the internal control system and the management of conflicts of interest, as any related risks are sufficiently monitored by the managing director.

The board determined the remuneration of the managing directors after examining the proposals of the remunerations committee and after consulting the board of statutory auditors.

Overall remuneration due to the members of the board and its subdivision was established by the shareholders' meeting.

The board evaluated the general progress of management, particularly taking into consideration the information received by delegated bodies during each session of the board itself.

The comparison between the results attained and those planned is part of the general evaluation of management, as the board does not produce a programme of written evaluations other than those recorded in the minutes of the board of directors.

In accordance with the company's code of conduct (article 1.C.1, letter f) the board is responsible for examining and approving in advance the transactions made by the issuing party and its subsidiaries, when these operations are strategically, economically and financially significant for the issuing party itself.

In accordance with the company's code of conduct (article 1.C.1, letter f) the board is responsible for examining and approving in advance the transactions made by the issuing party and its subsidiaries, when one or more directors have an individual interest or represent third parties in these operations.

In accordance with the company's code of conduct (article 1.C.1, letter f) the board is responsible for examining and approving in advance transactions made with related parties of the issuing party and its subsidiaries, when these operations are strategically, economically and financially significant for the issuing party itself.

The board decided not to establish general criteria to identify transactions that have strategic, economic or financial significance for the issuing party itself, in that these are monitored specifically with every transaction.

The company adopted its own procedure for the management of transactions with related parties.

According to the criteria established by this procedure, related parties are those subjects defined as such by international accounting standard 24, as set out in the aforementioned Consob regulations 11971/99 and subsequent amendments. In particular, without prejudice to the general standards referred to above and the need for a case-by-case evaluation of individual transactions by the board of directors of Prima Industrie S.p.A., related parties are:

- a) those companies that, either directly or indirectly, including through holding companies or third parties, control Prima Industrie S.p.A. and the companies that in turn are controlled by the companies controlling Prima Industrie S.p.A.; it is to be noted that at 31/12/2007 no subjects exercised control over Prima Industrie S.p.A.;
- b) those companies that, either directly or indirectly, including through holding companies or third parties, are controlled by Prima Industrie S.p.A.;
- c) those companies that are associated with Prima Industrie S.p.A.; there is no association with the associated company of an associated company;
- D) those subjects which, even indirectly, are party to shareholder agreements, as per article 122, paragraph 1 of Legislative Decree no. 58/98, whose object is the exercise of voting rights in Prima Industrie S.p.A. and/or in controlling companies of Prima Industrie S.p.A., in the event that these agreements involve the transfer of the majority of votes exercisable in the ordinary shareholders' meetings of the companies in question; it is to be noted that on 31/12/2007 there were no shareholders' agreements of this kind
- e) the directors of the board and statutory auditors of Prima Industrie S.p.A.;
- f) the general manager and the executives that report directly to the executive directors;
- g) close relations of directors of the board, statutory auditors, the general manager and the executives that report directly to the executive directors;
- h) those companies that, either directly or indirectly, including through holding companies or third parties, are controlled by the persons indicated in the previous points d), e), f), and g);
- i) those companies in which the persons indicated in the previous points d), e), f), and g), either directly or indirectly, including through holding companies or third

parties, exercise considerable influence;

l) those companies that share with Prima Industrie S.p.A. the majority of directors, or in which the majority of directors also hold the offices set out in the previous points e) and f) in Prima Industrie S.p.A.;

m) pension funds for employees of Prima Industrie S.p.A. and for employees of the subsidiaries of Prima Industrie S.p.A.

In accordance with article 2359 of the civil code and article 93 of Legislative Decree 58 of 24 February 1998, subsidiaries are defined as:

1) those companies in which another company holds a majority of the votes exercisable in the ordinary shareholders' meeting;

2) those companies in which another company holds enough votes to exercise a dominating influence in the ordinary shareholders' meeting;

3) Italian or foreign companies over which a subject holds rights, by virtue of a contract or clause, to exercise a dominating influence, when the applicable law provides for such contracts or clauses;

4) Italian or foreign companies in which, by virtue of shareholder agreements, a shareholder holds enough votes to exercise a dominating influence in the ordinary shareholders' meeting.

For the purposes of the above, the term control also refers to joint control, as defined in IAS 24.

Pursuant to article 2359 of the civil code, associated companies are those companies over which another company exercises a considerable influence. Influence is considered when at least a fifth of the voting rights can be exercised during the ordinary shareholders' meeting or a tenth in the case of stock-market listed companies.

The board did not evaluate the size, composition and functioning of the board itself and its committees, in that this evaluation of the board, has already been carried out by the shareholders' meeting, which resolved the number of members of the board, as well as the election of its members, after viewing the personal and professional characteristics of its candidates.

The same evaluation of the composition of the committees was carried out by the board at the time of appointment of the members with the right characteristics.

During 2007 the meeting of shareholders did not authorise general or preventive exemptions against competition as set out in article 2390 of the civil code.

### **5.3. DELEGATED COMMITTEES**

#### **Managing Directors**

The directors with management proxies are the CEO, Gianfranco Carbonato and the director Marco Pinciroli, who has received proxies related to M&A operations.

More particularly, pursuant to articles 2381 and 2384 of the civil code, the managing director:

- represents Prima Industrie S.p.A. legally with free powers of signature;
- represents Prima Industrie S.p.A. in Italy and abroad, before all fiscal, duty, administrative authorities and monitoring and control bodies of the stock market, public bodies in general, physical and legal persons (representing the company in the ordinary and extraordinary meetings of shareholders in which Prima Industrie has shareholdings) for the purposes of performing all necessary actions, with out exception, that are part of the company object, or which are related to it, barring those activities which, by law, or by the articles of association are reserved to the board of directors or the meeting of shareholders, with wide decision-making powers;
- represents Prima Industrie S.p.A. before all ordinary or special judicial authorities, in Italy and abroad, at local or national level, of any judicial level, in all types of proceedings (civil, penal, administrative, fiscal, etc.), whether as plaintiff or defendant, with the power to establish, reconcile, negotiate individual disputes, file complaints, sign declarations, motions, appeals, memorials of all judicial levels, discuss the relevant findings and reaching agreements and transactions where necessary.  
He or she may also refuse and/or accept releases from judicial documents and action and respond to free or formal questioning on matters regarding legal cases, with the power to be replaced for each of the proceedings, by his or her special attorneys to exercise the powers conferred to him/her. He or she may appoint lawyers and attorneys-at-law in any legal proceedings, including executive ones, of all levels, before ordinary or special judicial authorities, at national or local level, in Italy or abroad, as well as appoint lawyers and attorneys-at-law to act as plaintiffs in penal proceedings;
- represents Prima Industrie S.p.A. in ownership proceedings, in urgent judicial proceedings and in proceedings for conservative and executive deeds, dealing with any releases from these, appoint lawyers for executive deeds and represent the company in revocation claims and introduce credit into bankruptcy proceedings.
- has the power to perform all actions and underwrite all the contracts needed for the management of business and the company and implement those actions related to the company object that are reserved by law or by the articles of association to the board of directors and which, where provided for, do not exceed the specific limits shown above. In particular and without limitation to the generality the previous, the managing director can:
  - exercise in the interests of the company the powers needed to request bank loans and perform, in Italy and/or abroad, with credit institutions or banks or other public or private bodies, any incoming or outgoing financial transaction in accordance with Law 1329/65 (Sabatini), loan operations, including L/T, of any kind and for any purpose that is in the interests of Prima Industrie and its subsidiary companies, arranging the durations, currency, interest rates and conditions; these powers may be exercised for operations which, individually do exceed €3,000,000 (three million euros);
  - he or she exercises all the functions related to employment law, performing all deeds needed to underwrite, modify, terminate, negotiate disputes related to individual employment contracts. Furthermore, he or she will represent the company before insurance and social security institutions and monitoring bodies;

- deals with any procedures at the Chambers of Commerce and Industry throughout the Italian territory and in any foreign country where the company has stable representation (branches, offices and/or subsidiaries);
- underwrites, terminates and negotiates in Italy and abroad, any contract with personal or legal persons, or public bodies or public institutions, regarding any business involving the company object; these powers may be exercised in operations which, individually, do not exceed €2,000,000 (two million euros);
- demands credit and securities owed to the company by anyone and for any reason, including by severance, novation, renewal and extension, and provide credit to the company, of any kind, for a consideration or free of charge, including without recourse; discusses and settles accounts and invoices;
- issues, on behalf of the company, suretyship and/or personal and real guarantees of any kind, in the interest of the company and the group's companies; these powers may be exercised for operations which, individually do exceed €3,000,000 (three million euros); the issue of suretyship and/or guarantees on behalf of third parties is through the board of directors;
- organises, manages and controls activities in the execution of insurance, social security and work safety obligations towards the company's employees, in full observance of current legislation. fully implements the legislation on pollution, safeguard of the environment, work safety, privacy and product compliance to EC standards and/or those of destination countries;
- carries out transactions for the sale and purchase of company shares in accordance with resolutions of the shareholders' meeting, without limits on the amounts per individual transaction; carries out transactions for the sale and purchase of securities and bonds other than those of the company, as well as financial derivative transactions, with the limit of 2,000,000 (two million euros) per transaction;
- appoints and/or revokes attorneys to exercise all or part of the rights conferred on him/her, as well appointing proxies for specific tasks;
- issues, accepts, provides receipt for, endorses, cashes bills of exchange and cheques;
- carries out all action related to, without exception, the purchase, sale and lease of property, provided that their duration does not exceed nine years and all other property-related transactions, including those registered in public registers; these powers are exercisable for individual transactions that do not exceed €2,000,000 (two million euros);
- carries out all action related to, without exception, the purchase, sale and lease of property (trademarks, patents etc); these powers are exercisable for individual transactions that do not exceed €1,500,000 (one million five hundred thousand euros);
- grants discounts and rebates, denies credit; these powers are exercisable for individual transactions that do not exceed €2,000,000 (two million euros).

The managing director for M&A operations has the following signatory powers:

- development of a plan for expansion of the company, identifying geographical areas and industrial sectors for potential investment opportunities;
- identification of specific companies for potential investment within the aforementioned areas and sectors;

- identification of areas of potential growth and potential critical points in the various alternatives;
- selection, negotiation and preparation of the information needed to engage advisors for the selected investment operations;
- preparation, negotiation and definition of documentation preliminary to possible deals (letters of intent, confidentiality agreements);
- coordination of due diligence activities and technical controls on target companies;
- preparation of financial plans aimed at obtaining resources for acquisitions;
- preparation of industrial and business combination plans with target companies;
- assistance during phases of negotiation and definition of contract texts;
- preparation of all company and/or authorisation documentation to execute completed agreements;
- coordination and management of integration process of new companies within the group;
- any other activity that is indispensable or even only useful for the execution of aforementioned proxy functions.

### **Chairman**

The current chairman of the board of directors covers the role of managing director, having received the powers to do so.

This concentration of duties responds to the company's organisational needs: indeed, given the structure and dimensions of the group, the chairman's position as managing director is useful for efficient and proper management, and to enable him to effectively operate according to the directives and controls of the board of directors.

Hence, the chairman of the board is currently the main figure responsible for management of the issuing party (chief executive officer).

### **Information Statement to the Board**

As part of their duties, the managing directors provide regular feedback to the board regarding the activities carried during the year for which they hold powers of proxy, and they also provide the board of statutory auditors with an information statement presenting the most significant economic and financial transactions performed by the company or its subsidiaries, as well as non-typical or unusual transaction, or transactions with related parties or which have a potential conflict of interest, and which are subject to the examination and approval of the board.

During the financial year to al 31/12/2007, the directors provided ample information on the most significant company decisions during board meetings, which were held more frequently than the minimum quarterly basis required by article 22 of the articles of association.

#### **5.4. OTHER EXECUTIVE DIRECTORS**

Other executive directors on the board are:

- Domenico Peiretti (Managing Director of Prima Electronics S.p.a. and OSAI S.p.a.)
- Ezio Basso (General Manager of Prima Industrie S.p.A.)

The chairman of the board of directors is responsible for ensuring that the directors take part in initiatives geared towards increasing their knowledge of the current situation and the dynamics within the company in respect of the reference standards, and towards making their roles more effective.

#### **5.5. INDEPENDENT DIRECTORS**

The board verified whether each of the directors qualified as independent possessed the requisites for independence, according to all the criteria laid out in the code, and gives notice that no incongruities emerged at the time of appointment of each independent director.

\*\*\*

The board of statutory auditors ascertained proper application of the monitoring criteria and procedures adopted by the board to evaluate the independence of its members (*Application criterion 3.C.5*).

The independent directors met during the year in the absence of the other directors for meetings of the internal control committee (3 meetings) and the remuneration committee (2 meetings).

#### **5.6. LEAD INDEPENDENT DIRECTOR**

Since the positions of Chairman and CEO are covered by the same person, during the year (25 September 2007) the board appointed an independent director (Sandro D'Isidoro) as the lead independent director with the task of being a point of reference and coordination in the communications and contributions of non-executive directors.

### **6. PROCESSING OF CORPORATE INFORMATION**

The board adopted a procedure for the internal management and external communication of documents and information concerning the issuing party. In particular, in order to correctly identify privileged information about itself and the group, and in order to ensure their processing and communication to the market, and

hence, in order to avoid the abuse of privileged information and manipulation of the market, it adopted a market abuse procedure, also as implementation of articles 152a and subsequent of the Issuers' Regulations.

The essential elements contained in this procedure are as follows:

- Access to privileged information, to accounting information or other information with the potential to become privileged information must be rigorously restricted, even within the company and the group, only to those persons whose involvement is required for the a related professional activity.
- Access to documents that contain privileged information must be monitored and restricted. It is the responsibility of each director, statutory auditor or employee with access to privileged information to ensure that all documents in his or her possession are kept in such a way as to ensure its permanent confidentiality. For this purpose, no employee must leave documents containing privileged information on his or her desk, except for cases of momentary and short absence.

Documents must be stored in such a way as to guarantee access to authorised persons only.

- When a company department or employees comes into contact with privileged information or with information or an event that could in time become privileged information, they must promptly inform the managing director or the Corporate Finance Department in writing.

The communication must contain sufficient information to enable determination of the significance of the event or the matter and assess whether it constitutes or could in time constitute privileged information.

- The managing director and the corporate finance department exclusively are entitled to decided on the appropriate processing of each item of privileged or possibly privileged information.

In the event that the managing director and the corporate finance department identify the matter or event as privileged information, they will consult the company departments involved to decide on how the company should proceed.

- External communication of privileged information takes place, before any other external communication, via press releases.

As set out in the above procedure, the company has set up two registers of informed persons:

- a "functional register" featuring the following: those employees of the following departments that, owing to the activities that they perform, have regular and continuous access to privileged information the accounting data of the company and the group, the independent auditors, the communications company that works with the Investor Relations department and other collaborators who, owing to the activities carried out, have regular and continuous access to the privileged information in question,
- and an "occasional register" which figures employees or external collaborators who, for specific events, projects or operations, have access in any way or for any reason, to privileged information regarding an event, operation or project.

The purpose of these registers is to prevent informed persons from performing operations that may constitute market abuse through the use of privileged information.

Hence, a number of periods have been established in which informed persons may not perform transactions on the issuing party's actions. These periods are:

- For the functional register: 15 days before the date of the meetings of the board of directors of Prima Industrie called to approve the annual reports statements, interim statements and preliminary results;
- For the occasional register: from the day of entry on the register to the time when the transaction has been communicated to the market in compliance with this document or at least until when entry on the registry has expired.

## **7. BOARD OF DIRECTORS INTERNAL COMMITTEES**

The Internal Control Committee and the Remuneration Committee have been set up within the board of directors.

## **8. APPOINTMENTS COMMITTEE**

The board decided not to set up an internal appointments committee, leaving the choice of candidates to the full discretion of shareholders.

## **9. REMUNERATION COMMITTEE**

The board set up an internal remuneration committee consisting of 3 independent directors (namely **Mario Mauri, Sandro D'Isidoro and Mario Mauri**)

This committee met twice during the year.

\*\*\*

No director takes part in the meetings of the remuneration committee in which proposals are made concerning the remuneration of members of the board itself.

Un agreement with the remuneration committee, the chairman and CEO of the company participated in part of one of the meetings of the committee, once he had been informed of the committees intention to create an incentive plan for the management, in order to acquire the information needed to prepare a draft plan to submit to the committee.

### **Functions of the remuneration committee:**

According to the terms of the code of conduct, the remuneration committee presents the board with remunerations proposals for managing directors and directors who hold particular positions, monitoring application of the decisions adopted by the committee.

Furthermore, the remuneration committee periodically assesses the criteria adopted for remuneration of executives with strategic responsibilities, monitors their application according to the information provided by the managing directors and makes general recommendations to the board on this issue.

During the year (Spring 2007), the committee assessed the feasibility and methods for creating a medium-term incentive plan for top management, and more particularly it studied a proposal for a stock options plan, and decided to postpone approval, while waiting to define a clear picture of possible forthcoming company acquisitions. The committee also approved the proposed annual bonus to management for the year 2007.

\*\*\*

Minutes of the meetings of the remuneration committee were duly taken.

In the performance of its duties, the remuneration committee had access to the company information and departments needed for its task, and did not engage the services of external advisors.

Members of this committee were assigned an annual sum of €5,000 in addition to a attendance fee of €1,000 per meeting.

## 10. DIRECTORS' REMUNERATION

Three out of four executive directors benefit from an MBO. The fourth director, who only received one specific proxy (M&A transactions) received only fixed remuneration in 2007, to ensure greater independence in his role.

A significant part of the remuneration of executives with strategic responsibilities is related to Group economic objectives and objectives established for the individual.

At 31/12/2007 there were no share-based incentive plans for executive directors and executives with strategic responsibilities.

\*\*\*

The remuneration of non-executive directors is proportionate to the commitment required of each, in relation to their presence on one or more committees. The remuneration committee itself is not affected by the economic results of the issuing party. Non-executive directors are not subject to share-based incentive plans, barring the motivated decision of the meeting of shareholders.

\*\*\*

Board directors and the general manager received the following compensation during the

year<sup>1</sup>:

Name	Compensation for the office	Non-monetary benefits	Bonuses and other incentives	Other remuneration	Total
Gianfranco Carbonato	281.584,30	3.943,13	268.500,00	24.613,70	578.641,13
Marco Pincioli	167.084,93	-	-	-	167.084,93
Domenico Peiretti	17.084,93	3.003,97	115.585,00	210.636,87	346.310,77
Ezio Basso	12.712,33	2.697,48	110.114,00	165.356,09	290.879,90

In addition to Ezio Basso, General Manager (see table above), the other executive with strategic responsibilities is Massimo Ratti, Group CFO, who is expressly named within the company procedure for Internal Dealing as the person with regular access to privileged information, and has the power to take long-term strategic decisions and make decisions autonomously, without prior authorisation of an executive director. His cumulative remuneration for 2007, including non-monetary benefits, bonuses and other incentives, was €250,526.64.

## 11. THE INTERNAL CONTROL COMMITTEE

The board also set up an internal remuneration committee consisting of 3 independent directors (namely Pio Pellegrini, Mario Mauri and Sandro D'Isidoro).

During the year the committee met twice in person and once via telephone conference.

\*\*\*

The authorisation of point 8.P.4. of the code of conduct was respected, which requires that at least one member of the internal control committee possess experience in accounting and financial matters. The board ascertained the committee's observance of this criterion.

As previously agreed by the committee itself, meetings of the committee were attended by non-members who provided information on the individual points submitted to its examination.

### Functions of the internal control committee

The internal control committee was appointed to:

assist the board in its duties regarding internal control, as set out in the code;

<sup>1</sup> As per the draft financial statements deposited with this report.

assess, together with the executive responsible for the drafting of company accounting documents and with the independent auditors, proper use of accounting standards and, their homogeneous in terms of the drafting of the consolidated financial statements;

when requested by the relevant executive director, express opinions on specific aspects regarding the identification of the main business risks, as well as the planning, completion and management of the internal control system;

examine the work plan prepared by those responsible for internal control, as well as the regular reports;

assess the work plan drafted for auditing and the results set out in the report and in suggestions letters;

monitor the effectiveness of the accounts auditing process;

reports to the board on a minimum six-monthly basis, for the approval of the annual report, the half-year report, the activities carried out, and the suitability of the internal control system.

During 2007, the committee met to express an opinion on the following issues:

- Proposal of PricewaterhouseCoopers for the drafting of a due diligence report related to an acquisition;
- Examination of activities carried out by the advisor concerning fulfilment of obligations related to Law 262;
- consultancy appointment to define, adopt and implement the organisational, management and control model required by Legislative Decree no. 231/2001 (disciplining the administrative responsibility of joint stock companies)
- the audit instructions of the independent auditors for the 2007 financial statements

\*\*\*

An auditor assigned by the chairman of the board of directors took part in all the work of the internal control committee.

Minutes of the meetings of the internal control committee were duly taken.

In the performance of its duties, the internal control committee had access to the company information and departments needed for its tasks, and did not engage the services of external advisors.

Members of this committee were assigned an annual sum of €5,000 in addition to a attendance fee of €1,000 per meeting.

## 12. INTERNAL CONTROL SYSTEM

The board did not deem it necessary to define guidelines for the internal control system, in that it believes that these risks and their possible compatibility with proper management of the business are carefully monitored by the CEO who works to ensure that the main risks to which the issuing party and its subsidiaries are exposed are correctly identified, and properly measured, managed and monitored.

The identification, measurement, management and monitoring of the main risks is assigned to the CEO who reports to the board.

The board of directors ensures that its evaluations and decisions on the information submitted by the CEO concerning the internal control, approval of the annual and half-year report, and relations between the issuing party and the independent auditors are accompanied by sufficient preliminary analysis. For this purpose, the board of directors has set up an internal control committee, made up of mostly independent, non-executive directors.

The committee in office during 2007 is up entirely of independent directors.

\*\*\*

The evaluation of the suitability, efficiency and actual functioning of the internal control system is the responsibility of the CEO.

### 12.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM

The board appointed director, Gianfranco Carbonato, as the executive director in charge of supervising the functioning of the internal control system (*Application Criterion 8.C.1., letter b*).

\*\*\*

The CEO, who is responsible for supervising the running of the internal control system :

identified the main company risks (strategic, operational, financial and compliance), taking account of the characteristics of the activities of the issuing party and its subsidiaries, and submitted them regularly to examination by the board (*Application Criterion 8.C.5., letter a*)

planned, created and managed the internal control system, constantly verifying its overall suitability, effectiveness and efficiency (*Application Criterion 8.C.5., letter b*);

oversaw the adaptation of this system to the dynamics of the operational conditions and the legislative and statutory requirements (*Application Criterion 8.C.5., letter b*);

did not propose the appointment of a person in charge of internal control to the board (*Application Criterion 8.C.5., letter c*), in that he believed that the size of the company structure did not require this.

## **12.2. PERSON IN CHARGE OF INTERNAL CONTROL**

As mentioned above, considering the size of the company and the group, the board of directors decided that it is not currently necessary to appoint one or more persons specifically to oversee internal control.

\*\*\*

Considering the size of the company and the group, the board of directors decided that it is not currently necessary to set up an internal audit department.

## **12.3. ORGANISATIONAL MODEL in accordance with Legislative Decree no. 231/2001**

The company adopted an organisational, management and control model in accordance with Legislative Decree no. 231/2001.

A series of preparatory activities were carried out before drafting the model, divided into different stages and geared towards building a system of prevention and management of risks, in accordance with the provisions of Legislative Decree no. 231/2001. The model was based on the guidelines published on this issue by Confindustria and on Group policy.

Preparation of the model took place in the following phases:

- 1) Identification of Sensitive Activities
- 2) Identification of improvement actions
- 3) Preparation of the model.

The purpose of the model is to set up a structure and organise a system of procedures and control activities (preventive and retrospective), with the aim of reducing criminal risk, by identifying sensitive activities and establishing procedures for them.

The crimes considered significant for the company are:

- Undue receipt of sums, fraud against the state or a public body or receipt of public sums and computer fraud against the state or a public body
- Extortion and corruption
- Falsification of moneys, public credit documents and duty stamps
- Corporate offences
- Acts with terrorism or subversive intent against democratic order
- Market abuse
- Manslaughter and serious bodily harm, committed as violation of work safety, health and hygiene laws

Regular monitoring of the model is carried out by a special supervisory body. The supervisory body of Prima Industrie may consist of external advisors and group employees appointed by the board of directors.

Without prejudice to the discretionary power of the supervisory body to operate specific controls, including as a result of notifications received, the supervisory body makes regular spot controls of sensitive activities, in order to verify their proper execution, with regard to the general rules and specific procedures set out in the model.

The supervisory body currently has three members: Alberto Delle Piane, Pio Pellegrini, Roberto Pettrignani.

#### **12.4. AUDITING COMPANY**

PricewaterhouseCoopers S.p.A. was engaged as the independent auditors for the three-year period 2005-2007, as from 13/05/2005.

#### **12.5. EXECUTIVE IN CHARGE OF DRAFTING THE COMPANY ACCOUNTING DOCUMENTS**

The executive in charge of drafting company accounting and corporate documents is Corporate CFO, Massimo Ratti.

The board of directors appoints and revokes the executive in charge of drafting corporate accounting documents, following compulsory opinion of the board of statutory auditors, choosing subjects with at least one of the following professional requisites:

- a) inclusion on the register of auditors;
- b) sufficient experience as an administrative/accounting or financial executive for a public limited company;
- c) sufficient experience as an auditor or accounts analyst in a listed company, bank, insurance company, financial brokers or auditing company.

The board of directors ensures that the executive in charge of drafting corporate accounting documents has the right powers and means to perform the duties assigned to him or her by current regulations, and ensures that he/she observes administrative and accounting procedures.

The executive in charge of drafting the company accounting documents has the following powers:

- the right to refer to the heads of individual corporate departments for the accounting information needed to complete his/her duties;
- the right to ask heads of corporate departments, and other identified subjects for specific evidence of the proper and effective application of company procedures;
- the right to ask the head of Administration and the Treasury for

- specific declarations concerning the conformance of accounting information with documentation, books and operating data;
- with reference to consolidated accounting information, the right to ask the designated executives of subsidiary companies (where appointed), the heads of administration and delegated administrative bodies, for specific declarations regarding the conformance of reporting packages with documentation, books and operating data of those companies;
- with reference to consolidated half-year reports/statements, the right to ask the designated executives of subsidiary companies (where appointed), the heads of administration and delegated administrative bodies, for information regarding implementation of proper administrative-accounting procedures;
- with reference to consolidated half-year reports/statements, the right to ask the designated executives of subsidiary companies (where appointed), the heads of administration and delegated administrative bodies, for specific certification regarding:
  - the suitability and effective application of administrative-accounting procedures for the drafting of these documents, and the emergence of significant aspects;
  - the conformity of the annual/half-year reports to the legislation on which these documents are based;
  - the suitability of providing true and correct representation of the financial and economic situation of individual companies;
- the right to structure and organise, within his or her own activities, the human resources available within the company;
- the right to speak with administrative and control bodies, including *ad audiendum* participation in meetings of the board of directors examining and approving accounting statements;
- the right to speak to the internal control committee and the supervisory body;
- the right to take part in designing information systems with an impact on the administration and accounting procedures.

For these duties, the person was assigned annual compensation of €50,000, which may be integrated by the chairman and/or the CEO following motivated request by the person, with subsequent approval of the board of directors.

### **13. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES**

As stated above (cf. 5.2 “Role of the Board of Directors”), the board has established a specific procedure to approve and execute the operations of the issuing party or its subsidiaries, with related parties.

For a more detailed description defining related parties, and of this procedure, please see chapter 5.2 “Role of the Board of Directors”.

\*\*\*

The board undertakes to adopt operational solutions that facilitate identification and proper management of situations in which a director has a personal interest or represents a third party in operations.

For example, during the year, the directors declared a conflict of interest before single resolutions and abstained from voting on the issue in question.

## 14. APPOINTMENT OF STATUTORY AUDITORS

The Board of Auditors is made up of three members and two deputies. Minority shareholders elect one full member, who acts as chairman, and one deputy.

The board of statutory auditors is appointed on the basis of lists presented by shareholders, in which candidates are listed in order of preference. The list has two sections: one for candidates for the position of full members of the board of statutory auditors, and the other for candidates as deputy members of the board. Each list must present at least one full member candidate and one candidate for deputy.

Presentation of lists is reserved exclusively to shareholders who, alone or with others, own a total number of shares with voting rights reaching the minimum percentage set for lists for directors (4.5%) in accordance with article 16 above, barring the conditions set above for cases where a second list has not been presented within the fifteen days set out above.

Every shareholder, or shareholders belonging to a group in accordance with article 2359 of the civil code or belonging to a shareholders' agreement involving shares issued by the company, may not present or vote for more than one list, not even by third party or trust company.

Each candidate may be present on only one list, or else forego eligibility.

Excluded from lists are candidates who do not possess the requisites of propriety and professionalism established by legislation.

At least one of the statutory auditors and at least one of the deputy auditors must be members of the Register of Auditors and have practiced the profession for a minimum of three years.

Auditors not possessing the professional requisites set out above are chosen from among those who are registered with the professional bodies identified by decree of the Ministry of Justice, or who have acquired overall experience of at least three years in:

- a) administration or control, or management duties in companies with share capital no lower than the amount established by legislation; or
- b) professional practice or university lectureship in law, economics, finance and technical/scientific subjects directly related to laser technology or industrial automation and electronics or machine tools or long-term investment assets.
- c) executive positions in public organisations or public authorities operating in the credit, financial or insurance sectors, or nevertheless in areas strictly related to laser technology or industrial automation and electronics or machine tools or long-term investment assets.

Outgoing auditors may be re-elected. Lists presented by shareholders must be deposited at the company's registered office at least fifteen days prior to the appointed date of the first call of the shareholders' meeting, and this will be declared in the call notice. In the event that, at the end of the fifteen-day deadline, only one list has been presented or only lists presented by shareholders with connections with shareholders who, even jointly, have a controlling stake or a relative majority, in accordance with the provisions of article 144d of Consob Regulation no. 11971/1998, lists may be presented up to the fifth day after this date. In this case the threshold established for presentation of lists is reduced by half.

Lists must be accompanied by:

- a) information regarding the identity of the shareholders presenting the lists, including the overall percentage stake held and a certificate showing their entitlement to this shareholding;
- b) a written declaration from shareholders other than those who, even jointly, hold a controlling stake or relative majority, guaranteeing the absence of links with them, as set out in article 144d of Consob Regulation no. 11971/1998;
- c) exhaustive information on the personal and professional characteristics of candidates (including the list of positions of administration and control held by them in other companies), and a written declaration from the candidates attesting their possession of the legal requisites for office and accepting their candidacy.

Any lists not observing the above are considered null.

Statutory auditors are elected as follows:

1. two full members and one deputy are chosen from the list obtaining the highest number of votes in the shareholders' meeting, according to the order of preference in which they are listed in the sections of the list;
2. the other full member and the other deputy is selected, according to the order of preference in which they are listed, from the second most voted list by shareholders, presented and voted by shareholders who, in accordance with article 148, paragraph II of Legislative Decree no. 58/1998, are not connected to the shareholders that presented or voted the most voted list.

In the event of an equal number of votes for several minority lists, the shareholders vote these lists again. Excluded from this round of voting are the shareholders who voted the list obtaining highest number of votes.

The chairman of the board of statutory auditors is the first candidate on the second most voted list.

If it is not possible to proceed using the above system, either partially or wholly, the shareholders' meeting appoints the directors by relative majority.

In the absence of the requisites set out by legislation and the articles of association, the auditor is no longer entitled to office.

Replacement of a full member of the board is with a deputy belonging to the same list as the outgoing member.

The previous provisions for the election of statutory auditors do not apply to shareholders' meetings which, in accordance with the law, must appoint full members and/or deputies and the chairman needed to integrate the board of statutory auditors following replacement or expiry. In these cases, the shareholders' meeting resolves by relative majority, ensuring that minority shareholders are represented in the board of statutory auditors as stated in the first paragraph.

The compensation of auditors is determined by the shareholders' meeting, in accordance with the law.

## 15. AUDITORS

The table below shows the composition of the board of statutory auditors at the end of the 2007 financial year.

- The board was appointed by the ordinary shareholders' meeting on 14/05/2007;
- The board is in office for the three-year period 2007-2009;
- For details of the professional and personal characteristics of each auditor, see their curriculum vitae, which are annexed to this report.

Name	Office	In office since	List	Indep. Code.	% attend Board meetings	Other offices
Riccardo Formica	Chairman	14/05/2007	m		100	6
Roberto Petrignani	Full member	14/05/2007	M		100	3
Andrea Mosca	Full member	14/05/2007	M		100	2
Roberto Coda	Deputy Auditor	14/05/2007	M		n/a	
Franco Nada	Deputy Auditor	14/05/2007	m		n/a	

### KEY

**Office:** indicate whether, chairman, full member of the board, deputy auditor.

**List:** indicate M/m according to whether the director was elected from the list voted by the majority or by a minority (article 144-L of the Consob Issuers' Regulations)

**Indep.:** cross if the auditor can be qualified as independent according to the criteria established by the code, specifying at the foot of the table whether these criteria have been integrated or modified

**% attend. in Board meetings:** enter the auditor's attendance, in percentage terms, at meetings of the board of statutory auditors (when calculating this percentage, consider the number of meetings in which the auditor has taken part, compared to the number of board meetings that took place during the year or after the date of appointment)

**Other offices:** Enter the overall number of offices held in the companies specified in Book V, Title V, Chap V, VI and VII of the civil code, as shown on the list annexed, in accordance with article 144-N of Consob Issuers- Regulations, to the report on the activities of monitoring, drawn up by the auditors in accordance with article 153, paragraph 1 of the Consolidated Finance Act.

This board of statutory auditors met four times during 2007.

\*\*\*

The board of statutory auditors:

- evaluated the independence of its members after their appointment, applying all the criteria laid out in the code, with reference to the independence of directors (*Application criterion 10.C.2*).

\*\*\*

The issuing party requires that, should an auditor personally or on behalf of third parties have an interest in a particular transaction of the issuing party, he or she should inform the other auditors and the chairman of the board of directors immediately and providing full details of the nature, terms, origin and extent of this interest.

The board of statutory auditors monitored the independence of the auditing company, ascertaining observance of legislative requirements in this area, as well as the nature and extent of other services, other than control of accounts, provided to the issuing party and its subsidiaries, by the auditing company and organisations within its network.

As part of its activities, the board of statutory auditors coordinated the internal control committee, and was kept constantly up to date on the activities of the latter.

## **16. SHAREHOLDER RELATIONS**

The issuing party has set up a special section of its website (“Investors” and in particular the page headed “Information for Shareholders”), which is easy to access, containing important information about the issuing party of interest to shareholders, to ensure their rights are exercised with greater awareness.

The company department responsible for shareholder relations is the investor relations manager, Chiara Roncolini, in CFO Corporate.

## **17. SHAREHOLDERS’ MEETINGS**

For the purposes of the meeting of the shareholders, the issuing party issues a preventive communication in accordance with article 2370, paragraph 2 of the civil code, which must be received at least two days before the date of the first call of the meeting.

The shares for which communication is requested, as per article 2370 paragraph 2 of the civil code, will not remain unavailable until the meeting has been held.

All shareholders can provide a written proxy to be represented at the shareholders’ meeting. It is the responsibility of the Chairman of the meeting to ensure correct observance of the right to speak at meetings and the conformity of proxies.

Interventions at the meeting can take place from another location, connected via telecommunication methods provided by the company, provided that the collective

decision-making, good faith and equality of treatment are guaranteed among shareholders. In particular, proper conduction of meetings held via teleconferencing requires:

- a) that the chairman of the meeting, including through his/her collaborators, be able to ascertain the identity and legitimacy of interventions, regulate the meeting, take note of and declare the results of votes;
- b) that the minutes-taker be able to fully observe the events of the meeting that are being documented;
- c) that speakers be able to take part in the debate and simultaneous vote on the topics on the agenda;
- d) that the call notice contains reference to the places linked up by telecommunication methods, so that speakers can go there.

The location of the meeting is considered to be place in which the chairman and minutes-taker are located.

If a link to a remote location by telecommunication methods is not possible for technical reasons, the meeting cannot take place and must be postponed to a later date. If a link with a remote location by telecommunication methods is interrupted for technical reasons, the meeting must be suspended by the chairman. Any resolutions made to the point are considered legitimate.

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The company has a set of rules for shareholders' meetings approved by the board of directors, which regulates the order and functional running of shareholders' meetings.

All those intervening as representative of shareholdings are entitled to speak on each of the topics put up for debate.

Those intending to speak must apply in writing to the chairman, indicating the topic on which they intend to speak, after he has read the agenda and unless he has declared the debate closed on the topic to which the application to speak refers. If two or more applications are made at the same time, the chairman gives the floor according to the alphabetical order of applicants' surnames.

The chairman may authorise the application to speak by a show of hands; in this case, the chairman gives the floor according to the alphabetical order of applicants' surnames. Members of the board of directors, auditors, the general manager, the finance manager and other managers can ask to take part in the debate. Other executives and managers of the company may take the floor, along with directors, executives and managers of group companies and consultants, when the board of directors considers this useful for the issue under discussion.

Considering the subject and importance of the topics on the agenda, the chairman may determine how much time each speaker has to speak. After this time, the chairman may invite the speaker to conclude within the next two minutes. Those who have already taken part in the debate may ask to take the floor a second time for five minutes, and may also use this time to declare their vote.

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The board referred to the shareholders' meeting regarding activities carried out and

worked to ensure that shareholders received sufficient elements to make informed decisions during the meeting, providing them with the information statement required by current legislation, and by the Regulations of Consob and Borsa Italiana S.p.A.

During 2007, there were no significant variations in the market capitalisation of the issuing party's shares, due to variations in the number of circulating shares, nor was there a variation in the composition of its shares.

## **18. CHANGES SINCE THE CLOSING OF THE FINANCIAL YEAR**

Since the close of the financial year 2007, there have so far been no changes in the corporate governance structure.