

GUIDELINES FOR THE BREMBO S.P.A. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Drawn up by the Audit and Risk Committee

G. Cavallini – Chairman of the Audit and Risks Committee

Signature: _____

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For acknowledgement:

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INTRODUCTION

The Brembo Internal Control and Risk Management System (hereinafter ICRS):

- complies with the principles provided by the Article 7 of the Code of Corporate Governance for Listed Companies, approved in December 2011 by the Corporate Governance Committee, promoted by Borsa Italiana S.p.A. (hereinafter Code of Corporate Governance) and, more generally, complies with best practices existing in the national and international framework;
- consists of all the rules, procedures and organizational structures aimed to identification, measurement, management and monitoring the top risks pertaining to Brembo S.p.A. and Group Companies;

and contributing to the upright, correct and proper business management and in line with the aims defined by the Board of Directors and promoting an informed decision-making processes and in line with the risk propensity, as well as the diffusion of a proper knowledge of the risks, the legality and the company's values.

Therefore, the ICRS is a fundamental element of the Corporate Governance system of Brembo S.p.A. and the companies belonging to Brembo Group (subsidiaries).

It arises from the sharing of the company's principles and ethics values, and it is the expression of the Brembo Code of Ethics. The ICRS is regarded as a tool aimed to contribute the development of ethics and intended, in the future, to embody a true culture of control within the company based on the legality, honesty and transparency in all the company's activities, with the involving of the company organization in developing and application of tools aimed to identify, measure, manage and monitor the risks.

When it comes to operations, these principles are also expressed in the achievement of the Internal Control and Risk Management System, which consist of:

- contributing and guaranteeing reliability of the information;
- making sure that laws and regulations are obeyed, as well as the Company bylaws and the internal procedures;
- ensuring the safety of the company's assets;
- facilitating the effectiveness and efficiency of the operations and process of the company.



The Board of Directors realizes that control processes cannot give absolute guarantees about achieving the corporate purpose and preventing the risks peculiar to the company's business; nevertheless, it believes that the Internal Control and Risk Management System can reduce the probability and impact of erroneous decisions, human error, fraud, infringement of laws, regulations and company procedures, and of unforeseen.

Therefore, the ICRS is periodically examined and verified, taking into account the evolution of company's operations and the business context, as well as the best practices used in the national and international framework.

ROLES AND RESPONSIBILITIES

The Board of Directors has already identified the main roles and responsibilities within the Internal Control and Risk Management System by approving various company documents, to which please refer for further information¹.

In short, the ICRS involves, according to each one's particular responsibilities, the administrative bodies (Board of Directors, Audit and Risks Committee, the Executive Director overseeing the ICRS), the Board of Statutory Auditors, the External Auditors, the Supervisory Committee, the Internal Audit Function and all the roles and functions of the Company with specific tasks in the internal control and risk management, which are divided in relation to the size, complexity and risk of the company.

The management is also responsible for the effective application of the Internal Control and Risk Management System in each specific field, through the cooperation and active contribution of every collaborator of Brembo, at every level, in the course of their work, thus contributing to the creation of a value for the company, which is not merely economic but also ethical.

¹ Please refer to the "Manuale di Corporate Governance" ("Corporate Governance Manual"), "Modello di Organizzazione Gestione e Controllo" (Organizational Management and Control Model of Brembo S.p.A.) and "Schema di riferimento del Brembo Group relativo alla redazione dei documenti contabili societari" ("Brembo Group Reference Model concerning the preparation of corporate financial reports") (documents published on the Brembo Intranet in the Investor Relations/Corporate Governance/Codes and Manuals section)



Guidelines

MANAGING THE RISKS

The Brembo Internal Control and Risk Managements System must allow to manage proactively the risk, which is the effect of the uncertainty of the achievement the company goals, through a structured process aimed to identify, measure, manage, control and mitigate the risk and aimed to satisfy the own level of propensity and acceptance of the risk. The assessment must take account of the following elements:

- the probability of the risk occurring;
- the impact of the risk on quantity, quality and reputational aims of the company;
- any relations that might exist between the various risk factors.

This process has to involve all the internal stakeholders of the organization, as well as the review and the periodic monitoring of the risks and of the controls to be considered relevant for the company.

In identifying risks to submit to the attention of the Board of Directors, the Executive Director overseeing the functionality of the ICRS (hereinafter “Executive Director”) must concentrate on the risks with greater probability and impact on the Company through a weighting process, anyway in relation to Brembo’s tolerance level and risk acceptance.

IMPLEMENTATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Internal Control and Risk Management System must provide the existence of a set of organizational structures, rules and procedures aimed at:

- a) facilitating the effectiveness and efficiency of its operations, making it possible for the company to react appropriately to risks that hamper the achievement of its company aims;
- b) ensuring that its internal and external information and communication systems are of good quality, using reliable information systems and suitable reporting systems at the various levels that exercise control functions;
- c) contributing to compliance with rules and regulations;
- d) protecting company assets from improper or fraudulent use and from being lost;
- e) facilitating the identification, measurement and suitable monitoring of the risks assumed by the Group;
- f) establishing control activities at every operational level and clearly identifying duties and responsibilities, particularly during the phases of supervision and of intervention and correction of irregularities detected;
- g) ensuring that irregularities detected are promptly brought to the attention of the appropriate levels of the company and that suitable initiatives are taken to correct them;
- h) ensuring the necessary segregation between operational functions and control ones and therefore being organized in such a way as to avoid situations of conflict of interest in the assignment of duties or reduce them to a minimum.

The Executive Directors are responsible for establishing further policies for putting these guidelines into effect, referring to best practice models; after approval by the Top Management these policies are referred to the Audit and Risks Committee.

The BOD intends these Guidelines to direct the actions of the Internal Control and Risk Management System in order to:



- become an integral part of the Group's operations and culture, through the implementation of suitable information, communication and training processes, as well as the adoption of retribution and disciplinary systems capable of encouraging proper management of risks and discouraging behavior conflicting with the principles of the control system;
- react properly to significant risk situations that arise either within the Group or as a result of changes in the environment in which the Group operates;
- become effective and efficient as far as communications are concerned also, adopting suitable organizational solutions for this purpose that guarantee the functions directly involved in the ICRS access to the necessary information, for subsequent referral to the top management;
- arrange for regular activities controlling the effectiveness of the ICRS and the possibility of carrying out specific checks in the event that weaknesses in the ICRS are reported;
- facilitate the identification and prompt implementation of corrective actions.

EVALUATING THE EFFICACY OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The activities of monitoring the adequacy and the actual operation of the Internal Control and Risk Management System, and its revision if necessary, constitute an essential part of its structure. The Internal Control and Risk Management System therefore needs to be periodically reviewed and verified, taking the evolution of the company's operations and the reference context into account.

On the basis of the roles and responsibilities already defined, a number of control bodies responsible for checking on the Internal Control and Risk Management System and evaluating it can be identified.

Overall and final evaluation rests with the Board of Directors, which expresses an opinion on the basis of the reports drawn up by the control and supervisory bodies.

Therefore not only will the Board of Directors make sure to verify its existence and implementation within the Group, but will also periodically carry out a detailed examination of its suitability and its actual and real operation.

For this purpose, every year when the Balance Sheet is being approved and with the attendance of the Risk and Audit Committee, the Board of Directors, must:

- consider the significant corporate risks drawn to its attention by the Executive Director and assess how they have been identified, evaluated and managed; special attention must be paid to an analysis of the changes that have occurred during the relevant business year in the nature and extent of the risks and to an evaluation of the response of the Group to those changes;
- check on whether the structure of the System is really effective in pursuing its objective and in dealing with such risks, paying particular attention to any weaknesses that have been reported;
- consider the actions that have been taken or that need to be taken quickly in order to correct those weaknesses.

This evaluation might also reveal the need to draw up other policies, processes and rules of behavior to allow the Group to react properly to new and inadequately managed risk situations. Such actions for improvement, for which the management concerned is responsible, must be coordinated with the Executive Director overseeing the operations of the Internal Control and Risk Management System.