

CORPORATE GOVERNANCE

DEVELOPMENT DURING THE FINANCIAL YEAR

The “Brembo system of Corporate Governance”, the complete implementation of which took place during the periods 2000 and 2001, was the subject of wide scale updating during 2002.

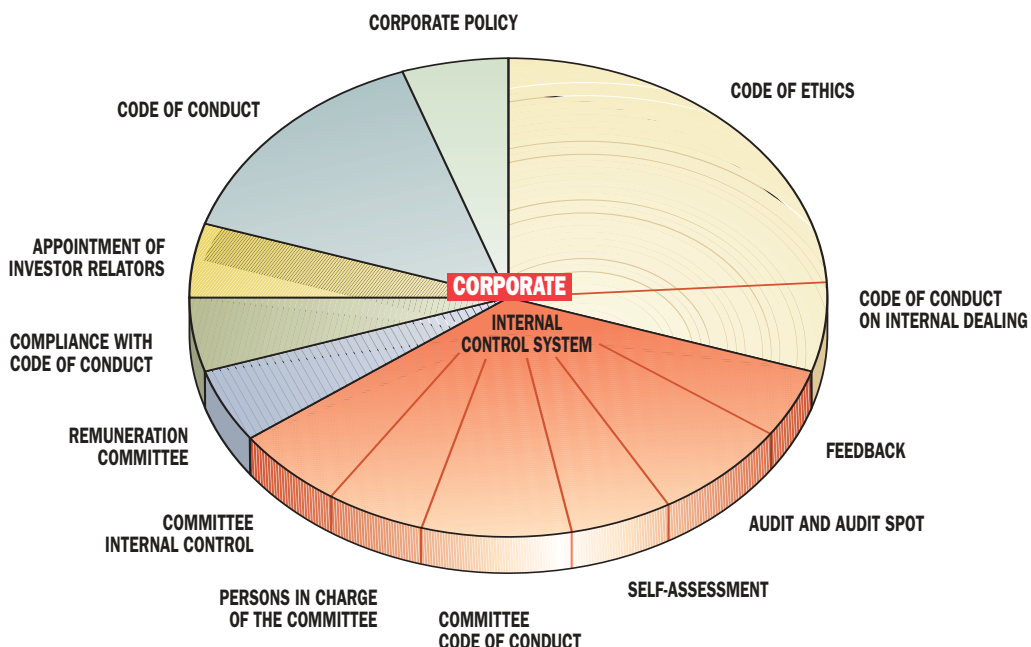
As is known, the year just passed has seen the provision of various interventions at various levels, intended to raise transparency indices, respect for the rules and in general for the proper functioning of companies, as a guarantee to the shareholders and stakeholders.

Among the principal pieces of legislation we would specify, in addition to the Legislative

Decree 231/2001 (criminal liability of corporations) and Legislative Decree No. 61/2002 (corporate crimes): the “New edition - July 2002” of the “Listed Companies Code of Conduct”; the “Supplement to the Regulation of the organised markets managed by Borsa Italiana S.p.A. on the subject of Internal Dealing”; and the “Market Information Guidelines” (June 2002), prepared by Borsa Italiana.

The Board of Directors of Brembo therefore resolved, respectively on 11 November 2002 and 19 December 2002, the necessary innovations to the “Brembo System of Corporate Governance” whose essential aspects are summarised in the diagram below:

BREMBO SYSTEM OF CORPORATE GOVERNANCE



In particular, the Board of Directors approved:

- a new second edition of “*Brembo Code of Conduct*” replacing the previous one adopted by the Board of Directors on 28 June 2000. The edition has completely incorporated the new text of the Code of Conduct issued by the Italian Stock Exchange in July 2002.
- The definitive versions of the “*Brembo Code of Ethics*” which contains the “Vision”, the “Mission” and the “Values” of the company, the ethical principles which the Company and all its collaborators at every level must aspire to in internal and external relationships. This represents one of the linchpins of the Brembo System of Governance insofar as, in line with the “*Guidelines for the Construction of Organisational Models*” issued by Confindustria (version updated October 2002), it has, inter alia, adopted an *Internal Control System* for preventing any attribution of criminal liability to the Company.
- The “*Instructions for the performance of duties relative to the communication of transactions with related parties*”;
- The new “*Procedure for Disclosing Privileged Information*”;
- The “*Market Information Guidelines*”;
- the “*Brembo Code of Conduct on Insider (or Internal) Dealing*”

The matters resolved have been and are still being circulated within Brembo by way of the most appropriate operations. The relevant documentation is available with the Legal and Corporate Affairs Management of Brembo.

In addition to the above, the Board of Directors has initiated all the activities and controls aimed at the immediate and full implementation of the provisions set out in the Brembo Code of Conduct (which has adopted the “Preda Code”). In particular:

- resolutions have been adopted on the subject of independence and availability of Directors;
- the new system of delegated powers has been ratified, which reserves to the Board of Directors all decisions about important transactions such as those relative to M&A transactions and to transactions with subsidiaries and affiliated companies.
- Finally, the correct procedures have been provided for in the case of transactions with related parties.

It is therefore considered that the “*Brembo System of Corporate Governance*” is, for its completeness and level of updating of the themes tackled, able to ensure the best protection for the stakeholders.

OPERATIONS OF COMPANY BOARDS

General Shareholders’ Meeting and relations with shareholders and institutional investors

During the financial year, two Ordinary General Shareholders’ Meetings were held.

It is pointed out that the Meeting held on 24 April 2002 resolved, inter alia, the change in the maximum number of members of the Board of Directors (increased from 9 to 11), and the

renewal of the Board of Directors and the Board of Auditors.

The Meeting held on 19 July 2002 dealt with:

- the approval of the merger of the company Brembo Engineering S.p.A. with Brembo S.p.A.;
- the approval of the free increase in capital of Brembo S.p.A.;
- the approval of some amendments to the Articles of Association relative, inter alia, to the procedure of appointment of auditors (in compliance also with provisions of the new Code of Conduct of the Listed Companies); granting to the Directors the power to increase the share capital in favour of future and possible stock option plans for the employees of the company and the companies directly or indirectly controlled by the same.

The activity of Investor Relations was also pursued effectively during 2002.

During the course of the year, the Investor Relations section of the corporate web site was further expanded, allowing for more rapid and prompt circulation of financial information and the immediate availability and use of documentation such as: financial statements and periodic reports, calendar of corporate events, Group structure, shareholding system, stock performance, institutional presentations and information on Corporate Governance.

In a recent investigation performed by the AIAF, the Italian Association of Financial Analysts, Brembo ranked second among the companies of the STAR segment for the quality of its online financial communication.

Meetings with investors and financial analysts were particularly numerous and frequent in 2002 (almost 90 meetings held during the year).

The communicative approach has favoured visits to the company, which allow a better appreciation of the corporate situation and entry into contact with corporate management; there were also frequent opportunities for meetings upon the occasion of international conferences and conventions, such as those which took place during the roadshows in Italy and abroad (Milan, London, Edinburgh, Paris, Geneva and Zurich were the financial centres involved).

Throughout the year four new banks, both Italian and foreign, have initiated the coverage of Brembo stock, bringing to 20 the number of banks and brokers, both Italian and foreign who follow the company and publish research regarding it.

Board of Directors – Appointment and Remuneration of Directors

The new Board of Directors of Brembo S.p.A., appointed by the General Shareholders' Meeting held on 24 April 2002, is made up of eleven directors, of which 4 executive directors (Alberto Bombassei, Cristina Bombassei, Eraldo Bianchessi, Stefano Monetini), two non-operational directors (Umberto Nicodano and Matteo Tiraboschi) and five non-executive and independent directors (Paolo Biancardi, Giovanna Dossena, Andrea Gibellini, Giuseppe Roma ed Aldo Mazzoleni). Director Aldo Mazzoleni was appointed by co-option by the

Board of Directors, pursuant the decision of 19 December 2002, following the resignations of director Alberto Tazartes. During the first shareholders' meeting held in financial year 2003, the resolutions pursuant to Article 2647 of the Civil Code shall be passed.

Bruno Saita was confirmed in the role of Secretary to the Board of Directors.

Each director has deposited his *curriculum vitae* at the registered office while, in compliance with the provisions of the Brembo Code of Conduct and each Director has provided the list of his memberships of Boards of Directors and Boards of Statutory Auditors of other companies; the summary of those lists is available, on request, at the registered office.

The new Board of Directors shall remain in office until the Shareholders' Meeting approving the financial statement for the financial period 2004.

During the financial period 2002 the Board of Directors met 11 times at the registered office; for the financial period 2003 seven meetings are planned.

Each company Director is informed well before the Board Meeting about all items on the agenda. This is undertaken by sending a detailed analytical report that outlines the necessary elements (from a descriptive and numerical point of view) and allows Directors to make resolutions with full knowledge of the facts.

The Board, in addition to the functions attributed by law and by the Articles of Association, must follow the provisions of the Brembo Code of Conduct, approved on 11 November 2002.

As regards the functions which are attributed exclusively to the Board of Directors and under powers granted, reference is made to what has been set forth in point 1) above.

As regards the appointment and the remuneration of the Directors, reference is made to the contents of the Code of Conduct.

In particular, it is confirmed that during the period the first tranche of shares relative to the "Three-Year Stock Option Plan 1999-2001" was allocated to the beneficiaries - 11 Executives of the Company - while no new share incentive plans have been started. During 2003, the second and last tranche of the shares relative to that plan shall be distributed on the basis of the resolutions of the Shareholders' Meeting of 19 July 2002.

Chairman of the Board of Directors and Managing Director

The Shareholders' meeting has confirmed Alberto Bombassei as Chairman of Brembo S.p.A. for the financial periods 2002 – 2004.

On 24 April 2002 the Board of Directors also appointed Alberto Bombassei as Managing Director of the Company, granting him powers of ordinary administration and some powers of extraordinary administration, in compliance with the provisions of the Articles of Association and the Brembo Code of Conduct.

The Chairman duly performed the duties and functions attributed to him by Law, by the Articles of Association and by the Code of Conduct.

COMMITTEES ENVISAGED BY THE PREDA CODE

Internal Control Committee and Internal Control System

During the financial year, the activity of the Internal Control Committee has continued. The Committee was constituted by resolution of the Shareholders' meeting on 3 May 2001 and is made up of non-operational and independent Directors: Giuseppe Roma (Chairman), Andrea Gibellini and Giovanna Dossena.

In particular, during the course of the financial period, the Internal Control Committee held three meetings with the Persons in Charge of Internal Control. In the course of these meetings, the activities performed by the Committee for Risk Self-Assessment were analysed and the efficiency of corporate transactions, the reliability of financial information, the respect for the law and the regulations and protection of corporate assets have been widely monitored, as provided for by the Code of Conduct.

In compliance with the new provisions contained in the Preda Code, the Chairman of the Board of Statutory Auditors Sergio Mazzoleni took part in the Internal Control Committee meeting of 11 November 2002.

As regards the "Internal Control System" this is structured in compliance with the Code of Conduct.

During the financial period, the activities of "Risk Self-Assessment" and "Internal Audit" were carried out in order to ensure the effective application of the rules of corporate behaviour

and the prevention of risks (including any connection to criminal liability of corporations). In particular all the self-evaluation questionnaires have been completed by the central management and internal audits were carried out relative to the factory in Curno and the Administration and Finance Department and shall proceed during 2003 in relation to the other central managements of the Company.

The Chairman of the Internal Control Committee, in the meetings of 21 March and 11 November 2002, gave appropriate information to the Managing Director and to the Board of Directors regarding the activities of the Internal Control Committee and, more generally, regarding the methods of functioning of the Internal Control System in order to prevent the occurrence of corporate risks.

On the basis of those reports, the Board of Directors considers that the System of Internal Control of the company is suitable to safeguard against the typical risks of the principal activities performed by the Company and by its subsidiaries, as well as monitoring the economic and financial situation of the company and the Group.

Remuneration Committee

The Remuneration Committee, set up by resolution of the Board of Directors of 3 May 2001, has seen the rotation between Alberto Tazartes and Aldo Mazzoleni, co-opted by the Board of Directors by resolution of 19 December 2002, following the resignation of the Director Alberto Tazartes.

The Committee is made up of the non-operational Directors Umberto Nicodano, Paolo Biancardi and Aldo Mazzoleni.

UPDATING ON COMPANY LAW

The Board of Directors meeting of 14 February 2003 took into consideration on the basis of the Chairman's report in relation thereto, the main amendment to the "Corporate System" according to the provisions of Legislative Decree No. 5 of 17 January 2003 and Legislative Decree No. 6 of 17 January 2003. In particular, the Board of Directors has evaluated the necessity during this period to amend the Articles of Association and/or the choice of a different structure of "Governance" in compliance with the provisions of the new regulations whose entry into force is forecast for 1 January 2004.

The analysis was performed with particular reference to:

- the maintenance of the present system of administration (the so-called Latin or traditional system) which provides for an administrative board controlled by the Board of Auditors on whom are incumbent the present prerogatives with the exception of the accounting control, which is entrusted exclusively to a company of independent auditors;
- the adoption of the so-called German or Dualistic Model, which provides for a management board and a supervisory board which appoints and revokes the components of the management board,

approves the financial statements and the consolidated financial statements and promotes actions of responsibility toward the members of the management board;

- the adoption of the so-called English or Monistic Model, which provides for the sole board of directors which appoints from within its own members a control committee that, for companies which resort to risk capital, is comprised of at least three members and operates as a Supervisory Board.

With regards to the possible amendments to the Articles of Association which could be made necessary by the adoption of the new law, the Board of Directors has reserved the right to a wider evaluation during the financial period for the purposes of making the most definite choices and in line with the prevailing directions.

The regulations enacted by the new Articles 2497 et seq of the Civil Code which introduced new regulations regarding the "Company Management and Coordination" are particularly important.

In that respect, there is underway in Brembo S.p.A. and its subsidiaries a wide organisational process aimed at ensuring, not only from a legal point of view, in addition to the formal and substantive correctness of the activities of the Directors, also consistency between the managerial and strategic direction of the Parent Company and the activities of its subsidiaries.