

### Principles, Sources and Company Macrostructure

#### Principles

Brembo's System of Corporate Governance was implemented again in FY 2004, fully complying with the provisions of "Corporate Governance of Listed Companies" (Codice Preda) and those required for listing with the STAR segment.

Brembo strongly believes in the maxim "transparency, rules, ethics, and reputation" as the basis of its intangible assets, its brand name, and its value. These principles permeate its corporate culture and, at the national and international level, they represent a constant source of inspiration in business decisions, in human resource management policies, in corporate governance, and in relations with all stakeholders.

In this context, Brembo, in addition to structuring and upgrading its internal audit operations, is implementing an ethics training programme that will progressively involve its employees at all levels.

To offer investors a more detailed assessment tool, reference was made to the guidelines prepared by ASSONIME (February 2004) and to ASSONIME Analysis of November 2004 in order to draft this report.

The report, which has been published in Brembo's website ([www.brembo.com](http://www.brembo.com), section Investor Relations & Financial Info), was submitted to Borsa Italiana (the Italian Stock Exchange).

#### Sources (updated as of 31 December 2004)

- 1) **Corporate By-laws** (Resolution of the General Shareholders' Meeting dated 26/04/2004).
- 2) **Brembo Code of Corporate Governance** (which fully encompasses the Preda Code), the second edition of which was approved by the Board of Directors on 11 November 2002.

The following documents are an integral part of Brembo's Code of Corporate Governance:

- a) **Regulations of the Shareholders' Meetings**, approved by the General Shareholders' Meeting held on 3 May 2000;
  - b) **Appointment of the Investor Relator** (resolution passed by the Board of Directors on 12 November 2004, which amended the previous resolution of 28 June 2000);
  - c) **Procedure for the Disclosure of Privileged Information**, approved by the Board of Directors' Meeting of 28 June 2000 and later updated at the Board Meeting of 17 March 2005;
  - d) **Instructions for the Investor Relator**, approved by the Board of Directors on 28 June 2000;
  - e) **In-house procedure for press releases (price-sensitive information)**, approved by the Board of Directors on 28 June 2000;
- 3) **Delegation of powers of Brembo S.p.A.** approved by the Board of Directors on 11 November 2002, as subsequently amended.
  - 4) **Instructions governing regulatory requirements for notifying transactions with related parties and regulatory framework**, approved by the Board of Directors on 14 October 2002 and

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subsequently amended with the resolution passed by the Board of Directors on 13 May 2003.

- 5) **Code of Conduct regarding Internal Dealing**, approved by the Board of Directors on 19 December 2002 and subsequently amended with the resolution passed by the Board of Directors on 13 February 2004.
- 6) **Code of Ethics of Brembo S.p.A.**, approved by the Board of Directors on 11 November 2002 and distributed to all Company employees.
- 7) **Guidelines for Information to the Market**, acknowledged by the Board of Directors on 11 November 2002.
- 8) **Instructions governing the Board of Directors and the Shareholders' Meeting of Brembo S.p.A.**, drawn up by the Legal and Corporate Affairs Department on 30 May 2003.

The aforesaid documentation (in addition to documentation demonstrating fulfilment of the Preda Code) can be obtained from Brembo's Legal and Corporate Affairs Department. Any additional information can be requested from the Company's Investor Relations Office (ir@brembo.it).

## **C**orporate Macrostructure

The Brembo macrostructure is outlined in the By-laws in the version approved by the Extraordinary Shareholders' Meeting of 26 April 2004 acknowledging the changes deriving from the reform of corporate law and opting to maintain the so-called Traditional Model.

In addition:

- At 31 December 2004, the Company has issued

69,840,450 ordinary shares, each with voting rights. The company FourB S.r.l. (registered offices Bergamo) holds 39,026,796 shares, corresponding to 55.88% of total share capital; however, pursuant to Art. 2497-bis of the Italian Civil Code, this company plays no role in the management and coordination of Brembo S.p.A.

- It is specified that Brembo S.p.A. directs and coordinates its subsidiary companies, as illustrated in the 2004 Board of Directors' Report on Operations, directly or through Brembo Participations B.V. (which on 2 December 2004 was conferred to Brembo International S.A., accompanied by a capital increase in the latter).
- The Company has complied with the requirements pursuant to Art. 2497 bis of the Italian Civil Code.
- There are no syndicate agreements or other shareholder agreements.
- The Board of Directors holds exclusive responsibility for the extraordinary and ordinary operations of the Company, with the exception of the responsibilities that, by law and in accordance with the Company By-laws, are reserved for the Shareholders' Meeting.
- There are no situations that diverge from the provisions of the Preda Code: The Company has ensured the compliant establishment and due operation of the Corporate Bodies, the Audit Committee and the Remuneration Committee (composed of independent directors). Instead, no Nominations Committee was established, due to the fact that candidates for the office of Company Director are proposed by the Shareholders' Meeting.

## Implementation of Corporate Governance

### **G**eneral Shareholders' Meeting and Relations with Shareholders and Institutional Investors

After nominating Alberto Tazartes (already co-opted by the Board of Directors on 24 September 2003) as member of the Company's executive committee, the Shareholders' Meeting of 26 April 2004 approved the Brembo S.p.A. financial statements for the year ended 31 December 2003, the Board of Directors' Report on Operations, the Statutory Auditors' Report, and the Independent Auditors' Report.

The Shareholders' Meeting also: approved and expanded the mandate conferred to KPMG S.p.A. regarding operations for the year 2003; awarded the audit and certification mandate for the annual Financial Statements of Brembo S.p.A. and the Group consolidated financial statements for the years 2004, 2005, and 2006 and their respective interim reports to the Independent Auditors PricewaterhouseCoopers S.p.A.; approved the three-year incentive plan for top management (already approved by the Board of Directors on 24 September 2003, on the proposal of the Remuneration Committee), regarding several top managers for the Group and two executive directors of Brembo S.p.A. (Chairman – Managing Director and General Manager); renewed the treasury share buy-back plan; and adopted a new By-law text, updating it to comply with Legislative Decree 6/2003.

During 2004, the company continued its constant and useful dialogue with shareholders and

institutional investors shaped by compliance with the principles contained in the Guidelines for Information to the Market drawn up by Borsa Italiana.

More in detail, in compliance with the procedure for handling reserved and price-sensitive information, the company prepared a report directed to shareholders and institutional investors outlining the principles of fairness, timeliness, continuity, consistency, transparency, and equal access regarding information.

All operating and financial information, whether mandatory, periodical or voluntary, is disclosed not only according to the terms and procedures prescribed by laws in force, but also in the company Internet site ([www.brembo.com](http://www.brembo.com), "Investor Relations & Financial Info" section).

A major factor contributing to spreading and increasing the perception of company value is meeting the financial community. In 2004, more than 120 meetings were held with analysts and institutional investors, more than double the number in the previous years, including 30 held on the company premises.

Interest among the financial community remains high as numerous reports published by top Italian and foreign banks and brokerages testify (more than 60 research reports, with six new coverages started up during the year), as do the invitations to participate in international conferences (more than 10 in 2004).

In 2003, the Company began an initiative to keep private shareholders informed through a quarterly newsletter reporting comments on results for the period and the latest news on the Company's performance. The initiative was well received by the retail public and continued in 2004.

The Investor Relations activities are carried out by Corrado Orsi (Tel. +39 035 605 145; e-mail address: ir@brembo.it), Chief Financial Officer at Brembo S.p.A., working closely with the Managing Director.

On 12 November 2004, the Board of Directors nominated him to replace Roberto Vavassori.

## **B**oard of Directors, Relations with Related Parties, Internal Dealing

The Board of Directors of Brembo S.p.A., appointed by the Shareholders' Meeting held on 24 April 2002 and in office until the Shareholders' Meeting approving the Financial Statements for FY 2004, is composed of 11 Directors, four of whom at 31 December 2004 are Operational Directors (Alberto Bombassei, Cristina Bombassei, Stefano Monetini, Matteo Tiraboschi); there are seven Non-operational and Independent Directors (Paolo Biancardi, Giancarlo Dallera, Giovanna Dossena, Andrea Gibellini, Umberto Nicodano, Giuseppe Roma and Alberto Tazartes; the latter was confirmed by the Shareholders in their General Meeting of 26 April 2004).

Bruno Saita is Secretary to the Board of Directors.

Each Director deposited his or her CV at the Company Offices; all Directors meet the requirements set forth by the Preda Code, as verified by the meetings of the Board of Directors held on 13 February 2004 and 30 July 2004.

In 2004, the Board of Directors met six times at the company's registered offices.

Name	Non operating	Indep.	Operating	Other offices
Bombassei Alberto <i>Chairman</i>			X	8
Biancardi Paolo	X	X		4
Bombassei Cristina			X	1
Dallera Giancarlo	X	X		2
Dossena Giovanna	X	X		2
Gibellini Andrea	X	X		2
Monetini Stefano			X	3
Nicodano Umberto	X	X		6
Roma Giuseppe	X	X		2
Tazartes Alberto	X	X		3
Tiraboschi Matteo			X	12

### *Meetings of the Board of Directors - 2004*

Date of meeting	% attendance
13.02.2004	100%
22.03.2004	91%
14.05.2004	73%
30.07.2004	100%
23.09.2004	91%
12.11.2004	91%

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

In addition to the functions attributed to it by law and by the Company By-laws, the Board of Directors is also responsible for the functions envisaged by the Code of Corporate Governance

approved on 11 November 2002. Thus, it is specifically responsible for analysing and sharing annual budgets and strategic plans. No changes were made to Directors' remuneration as deliberated by the Shareholders' Meeting of 24 April 2002, while the Shareholders' Meeting of 26 April 2004 approved the three-year incentive plan for top management, including two executive directors.

During the Board Meetings held on 13 February 2004, 30 July 2004 and 12 November 2004, information was provided regarding transactions with related parties on the part of several Directors of Brembo S.p.A. In terms of their object and nature, the Board did not consider them extraneous to the Company's normal course of business; these transactions did not present any particular critical elements, and they respected market values for transactions of this kind.

Lastly, among Relevant Parties there were no transactions exceeding the limitations set by the Code of Conduct regarding Internal Dealing.

### **D**elegation of Powers (approved by the Board of Directors on 11/11/2002)

In this regard no changes were made to what was illustrated in the 2003 report.

The Board of Directors, which is responsible for Company operations, granted the Managing Director ordinary administrative powers as well as certain extraordinary powers, including those to buy and sell realty, represent the Company in union relations, stipulate loans and financing to be repaid within 36 months, and grant and register mortgages. Therefore, the Board retains

the power to decide on the purchase and sale of stakes in other companies (M&A), the issuance of guarantees to third parties by Brembo S.p.A., and responsibilities regarding annual budgets and strategic plans.

The General Manager, the Business Unit Directors and other Central Directors are granted limited powers for ordinary administration in relation to the performance of their respective offices, regularly enrolled with the Company Register of Bergamo.

Information regarding the exercise of powers was submitted during the Board Meetings held on 13 February 2004, 30 July 2004 and 12 November 2004.

### **C**hairman of the Board of Directors and Managing Director

The Shareholders' meeting has confirmed Alberto Bombassei as Chairman of Brembo S.p.A. for the period 2002-2004. The Chairman is the Company's legal representative.

On 24 April 2002 the Board of Directors also appointed Alberto Bombassei as Managing Director of the Company, granting him the powers specified above.

The Chairman/Managing Director has properly carried out the responsibilities and tasks assigned to him.

### **A**udit Committee and Internal Audit Procedure

The work of the Audit Committee continued in 2004. The Committee was established with the resolution passed by the Board of Directors on 21

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February 2001 and it is composed of Non-operational Independent Directors – Giuseppe Roma (Chairman), Andrea Gibellini and Giovanna Dossena – whose role is to submit proposals and provide consultancy.

The Audit Committee held three meetings (on 05/03/04, 14/05/04 and 05/11/04). During these meetings, the internal auditing activities were broadly analysed and the efficiency of corporate transactions, the reliability of financial information, observance of the law and the regulations, and protection of corporate assets were widely monitored, as provided for by the Code of Corporate Governance.

The Chairman of the Board of Statutory Auditors, Sergio Mazzoleni, also participated in these meetings, either directly or through a representative.

The Managing Director and the Board of Directors were duly informed of the results of the activities of the Audit Committee through the reports submitted by the Committee Chairman, Giuseppe Roma, during the Board Meetings of 22 March 2004 and 12 November 2004.

The Company continued to actively carry out internal audits and risk prevention measures to ensure effective compliance with the Company's code of conduct acknowledged in the Code of Ethics.

As prescribed in the Internal Audit Procedure approved by the Board at the time, internal audits are oriented in two directions: risk prevention, on the one hand, and direct action to detect and eliminate irregularities.

Four operating audits were planned and carried out in the risk prevention area. As for direct action, two initiatives were previously planned on the orders of the Managing Director; during the

year the number was increased to twelve on the specific request of top management, also in the wake of the Audit Unit reports.

These actions detected no particularly noticeable irregularities or direct responsibility on the part of employees in the execution of their tasks; the results were included in a detailed report to the Managing Director and the General Manager.

## **L**egislative Decrees 231/01 and 61/02

In 2004, all the necessary actions (Code of Ethics, Mandates, Procedures, etc.) aimed at setting up a company Organisation, Management and Control System (in compliance with the "Confindustria Guidelines" of 24 May 2004) which, pursuant to the provisions of Art. 6 Legislative Decree 231/2001, is aimed at ensuring Brembo's non-liability for crimes pursuant to the same Legislative Decree 231/2001 and Legislative Decree 61/2002.

More in detail, at the conclusion of the initiatives undertaken, the Board of Directors' Meeting of 30 July 2004 appointed a Surveillance Committee, consisting of Giovanna Dossena (Chairwoman), Giuseppe Roma, and Umberto Simonelli, endowed with the necessary autonomy, independence, and professionalism. The task of this committee is to monitor the effectiveness of the Organisation, Management and Control Model, analyse its appropriateness and its functioning and robustness over time, and make sure that it is updated as necessary. The Model was presented to the Board of Directors' Meeting of 12 November 2004 and later approved by the Board of Directors' Meeting of 11 February 2005.

## **R**emuneration Committee

The Remuneration Committee, established with the resolution passed by the Board of Directors on 21 February 2001, is composed of Non-operational and Independent Directors: Umberto Nicodano, Paolo Biancardi and Giancarlo Dallerà. In 2004, the committee held one meeting (26 April 2004) of which minutes were taken. In detail, the committee passed a resolution to present the Board of Directors with the three-year incentive plan (illustrated above in a specific section).

## **B**oard of Statutory Auditors

The Board of Statutory Auditors was nominated by the Shareholders' Meeting of 24 April 2002; it consists of the following members: Sergio Mazzoleni (Chairman), Enrico Cervellera (Statutory Auditor), Andrea Puppo (Statutory Auditor),

Giuseppe Marangi (Alternate Auditor), Mario Tagliaferri (Alternate Auditor), all possessing the prerequisites established by law and the Preda Code.

In 2004, the Board met five times, on 22/03/2004, 05/04/2004, 22/06/2004, 23/09/04 and 16/12/2004, and it regularly attended all the meetings of the Board of Directors.

## **P**rivacy

In accordance with the personal data protection code, Legislative Decree 196/2003, Brembo S.p.A. has drafted and updated the prescribed "Security Planning Document" and has implemented all the measures prescribed therein, extended also to its subsidiary companies with registered offices in Italy.

More in detail, the Company planned and carried out the necessary initiatives at organisational, technical, and training levels.