



Centrale del Latte di Torino & C. S.p.A.

**2013 Annual Report on Corporate
Governance**



Introduction.

The ordinary shareholders' meeting held on 28 April 2011 appointed the new Board of Directors, which will remain in office until the financial statements at 31 December 2013 are approved.

The ordinary shareholders' meeting held on 24 April 2013 appointed as director Mr. Maurizio Macchiavello, already co-opted on 6 November 2012, who will remain in office until the 2013 financial statements are approved.

The Board of Directors is made up as follows:

-	Luigi Luzzati	Chairman
-	Riccardo Pozzoli	Executive Vice Chairman and Managing Director
-	Nicola Codispoti	Managing Director
-	Maurizio Macchiavello	Managing Director at Rapallo operating unit
-	Adele Artom	Director
-	Guido Artom	Director
-	Benedetto De Benedetti	Director
-	Antonella Forchino	Director
-	Luciano Roasio	Independent Director
-	Alberto Tazzetti	Independent Director
-	Germano Turinetti	Independent Director

The company implemented the new governance code by board resolution of 13 February 2007.

1. STATUTORY BODIES**1.1 BOARD OF DIRECTORS****1.1.1 ROLE OF THE BOARD OF DIRECTORS**

The Company is overseen by a board of directors that meets at least once per quarter.

The Board of Directors is appointed by the shareholders' meeting and remains in office for three (3) years. The current Board of Directors will be in office until approval of the 2013 financial statements.

Directors are asked to conduct their business and make decisions in a fully informed and autonomous manner, pursuing the goal of creating shareholder value and accepting the position when they believe that they may dedicate the necessary time to the diligent performance of their duties.

The Board of Directors:

- reviews and approves the strategic, industrial and financial plans of the Company and Group, and the Group's corporate governance system and structure;
- evaluates the adequacy of the organisational, administrative and accounting structure of the Company and key subsidiaries, as established by the managing directors, in particular with regard to the internal control system and the management of conflicts of interest;
- delegates powers to the managing directors and committees and revokes those powers, specifying the limits to these delegated powers, the manner of exercising them and the frequency, generally quarterly, with which the bodies in question must report to the Board on the activities performed in the exercise of the powers delegated to them;
- after consulting the board of auditors and examining its proposals, determines the remuneration of the managing directors and of those directors who are appointed to particular positions within the company and, if the shareholders' meeting has not already done so, determines the total amount to which the members of the board and of the executive committee are entitled;
- supervises operating performance, considering the information provided by the managing directors and internal audit committee and periodically comparing budgeted and actual results;
- reviews and grants advance approval for the transactions undertaken by the Company and its subsidiaries, where such transactions are of significance to the Company in strategic or financial terms, with a particular focus on situations in which one or more directors have an interest on their own account or on that of third parties, and on transactions with related parties more generally;
- conducts an evaluation of the composition and operations of the Board of Directors and its committees at least once a year, expressing an opinion on professional figures whose presence on the board they consider appropriate where necessary;

- discloses the number of meetings of the Board of Directors and committees held during the year and the percentage in which each director in the annual corporate governance report has taken part; and
- reports to the shareholders' at the shareholders' meeting.

In accordance with article 12 of the corporate by-laws, the Board of Directors exercises the powers, functions and competences regarding the ordinary and extraordinary management of the company, with the sole exception of those competences that are attributed to the shareholders' meeting, either by law or by the corporate by-laws.

The Board of Directors also has the power to resolve upon the following:

- mergers in the cases provided for under articles 2505 and 2505 bis of the Italian Civil Code;
- transfer of the Company's registered office within Italy;
- the setting up or closure of secondary offices;
- indicating which directors – in addition to the Chairman, the Vice Chairman and the Managing Director – and executives may represent the company, in accordance with the following articles 17 and 18 of the corporate by-laws;
- appointing and dismissing the person in charge of the audit committee;
- reduction of the share capital in the event of the withdrawal of a shareholder;
- adjustments to the corporate by-laws in accordance with regulatory provisions.

The Board expresses its opinion of the maximum number of appointments as director or auditor of companies listed on regulated Italian and international markets;

1.1.2 MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors consists of eleven executive and non-executive directors. The number and standing of the non-executive Directors are sufficient to ensure that their views can carry significant weight in the decision-making process.

Non-executive directors bring their specific skills to the discussions of the Board, by contributing to the taking of decisions in the interest of the company.

Directors are considered non-executive inasmuch as:

- a) they do not engage and have not engaged in economic dealings with the Company, its subsidiaries, executive directors, the shareholder or group of shareholders controlling the Company, including through subsidiaries and/or companies in which they serve in executive capacities, or the dealings of a commercial nature they engage or have engaged in are conducted under normal arm's-length conditions and do not condition their autonomy of judgment;
- b) they do not hold, whether directly, indirectly, or on behalf of third parties, shareholdings which would be so substantial as to allow them to exercise control or considerable influence over the company, or to take part in shareholder agreements for its control;
- c) they are not now parties, nor have they been parties in the past three years, to salaried employment relationships and/or engagements with the Company, its subsidiaries, executive directors, or the shareholder or group of shareholders controlling the Company;
- d) they are not spouses, cohabitants, kin or relations up to the fourth degree of an executive director of the Company or the controlling shareholder, nor are they spouses, cohabitants, kin or relations of the first degree of a party that is in the position indicated under a), b) or c);
- e) they do not receive nor have received during the three previous years, a significant additional remuneration to the "set" fees of a non-executive Director, including participation in corporate performance-based incentive plans, including share-based plans, from the Issuer or from a subsidiary or parent company;

The following are independent directors:

- **Luciano Roasio**
- **Alberto Tazzetti**
- **Germano Turinetti**

For an evaluation of the significance of commercial, professional or employment relations and the period of time set out in the foregoing points, refer to the quantitative parameters set by Borsa Italiana S.p.A.

1.1.2 ACTIVITY OF THE BOARD OF DIRECTORS

The Board of Directors met 8 times during 2013, in order to discuss and resolve upon the following:

- The draft financial statements and the draft consolidated financial statements and pertinent reports and notes at 31 December 2012;
- The annual report on corporate governance for 2012;
- The annual report of the Supervisory Body;

- The report on the remuneration paid to the members of the management and audit bodies, general managers and other key management personnel
- The call for the Shareholders' Meeting;
- The granting of powers to the Board Member Maurizio Macchiavello for the operating unit CLR – Latte Tigullio;
- Verification of the independence requisites of the independent Board Members;
- The setup of a Temporary Association of Companies (ATI) between Centrale del Latte di Torino & C. S.p.A. and Centrale del Latte di Vicenza S.p.A., called "La filiera del latte tra Genova, Torino e Vicenza" (The milk production chain linking Genoa, Turin and Vicenza), for the purpose of presenting an application for access to the "food chain contracts", pursuant to the Decree of 22 November of the Ministry of Agriculture, Food and Forestry Policies; to approve the spending and investment programme;
- Participation in the public auction of the assets making up the company belonging to Consorzio Cooperativo Vallestura;
- Sale of the equity investment in Frascheri S.p.A.;
- Interim report at 31 March 2013 and 30 September 2013 of Centrale del Latte di Torino & C. S.p.A.;
- Interim report at 30 June 2013;
- 2014-2016 Business Plan

When the nature of the matters on the agenda so required, Directors and Statutory Auditors were provided in advance with documentation pertaining to the matters to be considered.

A list of directors and the number of meetings attended by members of the Board of Directors is provided in the annexed table 2.

1.2 THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is appointed on the basis of lists submitted by the shareholders. Lists, which consist of two sections, one for statutory auditors and the other for alternate auditors, accompanied by thorough information concerning the candidates' personal and professional traits, are filed at the Company's office at least 15 days before the scheduled date of the shareholders' meeting.

Only shareholders who individually or collectively hold shares with voting rights representing at least 2.5% of capital may submit lists.

Candidates who serve as statutory auditors to five other companies or entities whose securities are admitted to trading on a regulated market cannot be included in lists.

The provisions of Article 21 of the Corporate By-Laws apply to the other rules and obligations.

The lists, accompanied by information regarding the candidates' characteristics, are published through the Company's website in a timely manner.

Auditors are chosen from among persons who may be considered eligible, including on the basis of the criteria applicable to directors set out in paragraph 3.1.

Auditors accept appointment when they believe they can devote the necessary time to the diligent performance of their duties.

An auditor with an interest, either directly or on behalf of third parties, in a given Company transaction promptly and thoroughly informs the other auditors and the chairman of the board of directors of the nature, terms, origin and extent of his/her interest.

The Board of Statutory Auditors monitors the independence of the auditing firm, checking compliance with law provisions in this regard, as well as the type and scale of services other than auditing services provided to the company and its subsidiaries by the auditing firm and bodies belonging to its network.

In the course of their activities, auditors may call upon the internal audit department to audit specific operating areas or Company transactions.

The Board of Statutory Auditors and the Internal Audit Committee shall exchange information relevant to the performance of their respective tasks in a timely manner.

The ordinary shareholders' meeting held on 30 April 2012 appointed the new Board of Statutory Auditors, which will remain in office until the 2014 financial statements are approved. It is made up as follows:

The members of the Board of Statutory Auditors are as follows:

- Mr. Francesco FINO	Chairman of the Board of Statutory Auditors
- Mr. Giovanni RAYNERI	Statutory Auditor
- Ms. Vittoria ROSSOTTO	Statutory Auditor
- Ms. Michela RAYNERI	Alternate Auditor
- Mr. Massimiliano FISCHER	Alternate Auditor
- Mr. Franco RICHETTI	Alternate Auditor

A list of the members of the Board of Statutory Auditors and the number of meetings of the Board of Directors and Internal Audit Committee attended is provided in the annexed table 2.

2. THE COMMITTEES

The Company's Governance Code calls for the establishment of an Internal Audit Committee and a Committee for the Remuneration of Directors. These committees are in addition to the Supervisory Body pursuant to Legislative Decree No 231/2001.

2.1 THE INTERNAL AUDIT COMMITTEE

The Internal Audit Committee of Centrale del Latte di Torino & C. S.p.A. and its subsidiaries is authorised to supply advice and submit proposals. The committee is made up of four members, three of whom are non-executive directors (two of whom are independent) plus the person in charge of the audit committee.

During 2013, Mr. Giancarlo MORETTO, the member in charge of the Audit Committee, tendered his resignation from the position owing to professional commitments. **Mr. Federico Gai** was appointed as his successor.

The person in charge of the audit committee appointed does not operate under any figure in charge of the operational areas, and answers to the managing directors, the internal audit committee and the auditors.

The other members of the Audit Committee are:

- Antonella Forchino	Director
- Luciano Roasio	Independent Director
- Alberto Tazzetti	Independent Director

2.1.1 ACTIVITY OF THE INTERNAL AUDIT COMMITTEE

The Internal Audit Committee:

- assesses the correct use of accounting standards and their consistency for the purposes of drafting the consolidated financial statements, together with the executive appointed to draft corporate accounts and the auditing firm;
- assesses and expresses opinions on specific issues related to the identification of the main company risks;
- assesses the bids made by the auditing firm to obtain the assignment, as well as the work schedule prepared for the audit and the results set forth in the report and advisory letter, if present;
- ensures that the auditing process is effective;
- performs additional duties assigned by the Board of Directors;
- periodically reports to the Board of Directors—at least every six months—on the activities performed and on the appropriateness of the internal audit system.

The Internal Audit Committee assessed the work schedule for 2012 prepared by the Head of Internal Control, suggested areas in which he was to perform his auditing duties and viewed and discussed the reports he had drafted.

During 2013 the person in charge of the audit committee carried out inspections on the following:

- the appropriateness and the correct application of the internal procedures manual adopted by the Group Companies, with the aim of identifying areas potentially subject to greatest risk and of indicating corrective action where necessary;
- the existence of problems regarding the presence, monitoring and management of company risks linked to disputes regarding labour, fiscal issues and IT security;
- the completeness and reliability of accounting information and the even application of the accounting principles currently in force;
- the existence of any breaches of the Code of Ethics;
- the main changes that have occurred in the organisational structure and the IT systems;
- the activity carried out by the independent auditors;
- compliance of company practice with laws, regulations, directives and Group procedures.

- whether relationships with related parties comply with normal trading conditions;

In the course of these inspections, carried out in the Parent Company, subsidiaries and affiliates, no situations or practices were identified that are in contrast with the procedures; no areas subject to risk or inefficiencies were identified, and in particular, no indication was found of censurable or irregular conduct in dealings with related parties.

The interim reports of the Audit Committee provided ample information to the Board of Directors.

Members of the Board of Statutory Auditors and the representative of the Auditing firm accepted the invitation to attend the working sessions of the Committee.

2.2 THE COMMITTEE FOR THE REMUNERATION OF DIRECTORS

Within the Board of Directors, a remuneration committee has been set up. It is composed of 3 executive directors, the majority of whom are independent.

The remuneration committee presents the Board with:

- proposals for the remuneration of the Chairman, the Managing Directors and the Directors that hold particular offices, monitoring the application of the decisions adopted by the Board;
- periodic assessments of the criteria adopted for the remuneration of managers with strategic responsibilities, overseeing their application based on information provided by the managing directors, and formulating general recommendations on the subject for the Board of Directors.

No director takes part in the meetings of the remuneration committee in which proposals are formulated regarding his own remuneration.

The Remuneration Committee is made up of the following members:

- **Guido Artom** **Director**
- **Alberto Tazzetti** **Independent Director**
- **Germano Turinetti** **Independent Director**

During 2013 the Remuneration Committee did not meet.

2.3 SUPERVISORY BODY

The Board of Directors has charged the Internal Audit Committee with supervising the functioning of and compliance with the organisation, management and control model pursuant to Legislative Decree no. 231/2001, as well as with updating the model. Accordingly, the Committee also serves as Supervisory Body. The Supervisory Body reports directly to the Board of Directors in order to ensure that the Supervisory Body is fully autonomous and independent in the performance of the tasks assigned to it.

3. TRANSACTIONS WITH RELATED PARTIES.

Article 11 of the Company's Self-Regulatory Code deals with the question of relationships and economic transactions with related parties. The Code recommends that in the case of transactions conducted with related parties, those directors that have an interest—including a potential or indirect interest—in the transaction should provide timely, exhaustive notification thereof to the board regarding such interest and the circumstances of the same, and should leave the board meeting when the pertinent resolutions are made.

As of 1 January 2011, the Company adopted the code of procedures for dealing with transactions with related parties, pursuant to Consob resolution no. 17221 as amended.

Should the nature, value, or other characteristics of the transaction so require, in order to avoid terms being set that would not be in keeping with those normally agreed upon by non-related parties, the Board of Directors arranges for it to be carried out with the assistance of independent experts, in order to determine the value of the assets or of the pertinent financial, legal, or technical profiles. CONSOB has given a specific indication of subjects that may be deemed related parties, as described in IAS 24; these include those that control the issuer, those that are controlled by the issuer and those that are linked to the issuer, as defined by IAS 28.

The Company has set up a Committee for transactions with related parties, made up of the following Directors: Antonella Forchino, Luciano Roasio and Alberto Tazzetti.

Between the parent company and the subsidiary Centrale del Latte di Vicenza S.p.A., transactions have been conducted at normal market conditions, with regard both to the production of branded products and to bulk milk.

In the past, the Parent Company entered into a lease agreement for an area adjacent to the Turin production facility used as a parking lot for the motor vehicles of its employees and distributors and a residence made available for use by the Company's employees, both of which were owned by the ultimate parent company, Finanziaria Centrale del Latte di Torino S.p.A., for a total amount of € 9,573.

On the basis of the resolution passed by its Board of Directors and similar bodies at the subsidiaries, Centrale del Latte di Torino & C. S.p.A. chose to participate in the national tax consolidation program for a period of three years beginning with the fiscal year that ended on 31 December 2011. That new taxation scheme allows any losses sustained by subsidiaries to be used to decrease the Group's tax base.

The Parent Company and its subsidiaries have signed an agreement specifying the terms and conditions of the application of the tax consolidation program with a view to compliance with the principles of transparency and good faith.

The following table presents the situation of transactions with related parties at 31 December 2013:

	Receivables	Payables	Costs	Revenues
Finanziaria Centrale del Latte di Torino S.p.A. vis-à-vis				
Centrale del Latte di Torino & C. S.p.A. - subsidiary	-	-	-	9,573
	-	-	-	9,573
Centrale del Latte di Torino & C. S.p.A. vis-à-vis:				
Finanziaria Centrale del Latte di Torino S.p.A. – ultimate parent company	-	-	9,573	-
Centrale del Latte di Vicenza S.p.A. - subsidiary	122,374	645,888	2,124,091	719,336
GPP S.r.l. – subsidiary	303,271	-	-	-
	425,645	645,888	2,124,091	719,336
Centrale del Latte di Vicenza S.p.A. vis-à-vis:				
Centrale del Latte di Torino & C. S.p.A.	645,888	122,374	719,336	2,124,091
	645,888	122,374	719,336	2,124,091
GPP S.r.l. vis-à-vis:				
Centrale del Latte di Torino & C. S.p.A.	-	303,271	-	-
	-	303,271	-	-

4. TREATMENT OF PRICE-SENSITIVE INFORMATION

Acting on a proposal by the Managing Director, the Board, during the meeting held on 18 December 2000 resolved to limit to the Chairman and the Managing Director the right to provide persons outside the company with details on documents and information regarding the company, with particular reference to price-sensitive information. They may use the services of the consultancy firm to which financial information is entrusted.

4.1 CODE OF INTERNAL DEALING

Centrale del Latte di Torino & C. S.p.A. has implemented an internal dealing code of conduct to regulate the disclosure of price-sensitive information concerning the purchase, sale, underwriting or exchange of shares or financial instruments linked to shares.

By board resolution dated 13 February 2007, the Internal Dealing Code of Conduct was updated, with immediate effect, to include a prohibition against undertaking transactions involving the Company's stock during certain periods of the year.

Members of the management and control bodies, key executives and the investor relator are prohibited from undertaking transactions involving the financial instruments set out in Article 5, except for the exercise of stock options or option rights, as limited to Company shares, provided they are undertaken concurrent with exercise, either directly or through intermediaries during the 15 days before the board meeting called to approve periodic financial results and any other transaction deemed price-sensitive.

The Board of Directors may temporarily lift the prohibition in exceptional circumstances, which must be immediately and sufficiently justified by the interested party.

Members of the management and control bodies of subsidiaries and the executives of subsidiaries, persons (legal or natural) who hold at least 10% of the Company's capital and the company that controls the issuer are expressly excluded from the prohibition.

The Code of Conduct is binding for relevant persons who have undertaken transactions directly, non-legally separated spouses, minor children, and persons who have had transactions involving the Company's shares and financial instruments linked to the Company's shares undertaken by intermediaries, trusts or subsidiaries.

Those who serve in positions or functions at Group companies and legal and natural persons who hold equity interests in the Company are considered relevant persons for issuers in accordance with Article 152-*sixies* of the CONSOB Regulation:

- 1) Chairman and Managing Directors

2) Directors and Statutory Auditors

3) Managers

4) *Investor Relators*

Natural or legal persons who:

5) hold a 10% or greater interest in the Company;

6) control the Company;

7) have close ties to the above persons.

Relevant persons have been recorded in a special register established and updated by the Company in accordance with Article 152-bis of the CONSOB Regulation for Issuers.

For the relevant persons indicated under 1, 2, 3, 4, and 7, the disclosure obligation applies within five days of market operation, and for the persons indicated under 5 and 6, by the end of the 15th day of market operation after the execution of transactions individually or collectively totalling € 5,000 (five thousand euros) by year-end. The amount is calculated by adding transactions involving shares of the Company and the financial instruments linked to those shares undertaken on behalf of each relevant person and those undertaken on behalf of closely related persons.

Relevant persons have been recorded in a special register established and updated by the Company in accordance with Article 152-*bis* of the CONSOB Regulation for Issuers.

During 2013 no relevant person notified the company of the carrying out of transactions equal or superior to the limit set.

5. INVESTOR RELATIONS DEPARTMENT

The Board of Directors appointed Vittorio Vaudagnotti as head of the investor relator department, with the duty of maintaining relations and providing documentation and information concerning the Company, its shareholders and institutional investors.

In 2013, the Company met with analysts during the event organised by Borsa Italiana held on 27 March 2013 in Milan and 18 September 2013 for the presentation of interim results.

Turin, 7 March 2014

CENTRALE DEL LATTE DI TORINO & C. S.p.A.

The Chairman

Luigi Luzzati

- Table 1: Structure of the Board of Directors and committees, specifying the head of the Investor Relator department.
- Table 2: Other positions filled by members of the Board of Directors.

TABLE 1:**STRUCTURE OF THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE, INDICATING THE INVESTOR RELATOR**

Office	Members	In office from	In office up to	List (*)	Executive	Non-executive	Indep. according to Code	Indep. according to TUF	% (**)	Audit Committee	Remuneration Committee	Supervisory Body	No. of other offices
Chairman	LUZZATI Luigi	28/04/2011	Approval of 2013 Financial Statements	M	YES				100%				2
Executive Vice Chairman and Managing Director	POZZOLI Riccardo	28/04/2011	Approval of 2013 Financial Statements	M	YES				100%				
Managing Director	CODISPOTI Nicola	28/04/2011	Approval of 2013 Financial Statements	M	YES				100%				
Managing Director	MACCHIAVELLO Maurizio	24/04/2013	Approval of 2013 Financial Statements	M	YES				100%				
Director	ARTOM Adele	28/04/2011	Approval of 2013 Financial Statements	M		YES			80%				
Director	ARTOM Guido	28/04/2011	Approval of 2013 Financial Statements	M		YES			65%		YES		
Director	DE BENEDETTI Benedetto	28/04/2011	Approval of 2013 Financial Statements	m		YES			100%				
Director	FORCHINO Antonella	28/04/2011	Approval of 2013 Financial Statements	M		YES			100%	YES		YES	
Director	ROASIO Luciano	28/04/2011	Approval of 2013 Financial Statements	M		YES	YES	YES	100%	YES		YES	
Director	TAZZETTI Alberto	28/04/2011	Approval of 2013 Financial Statements	M		YES	YES	YES	75%	YES	YES	YES	
Director	TURINETTO Germano	28/04/2011	Approval of 2013 Financial Statements	M		YES	YES	YES	50%		YES		3

(*) M = Majority list (**) % of attendance at Board and Committee meetings (***) percentage referring to the board meetings subsequent to appointment
m = minority list

The Board of Directors will be in office until the meeting to approve the 2013 financial statements.

Office	Name	
Head of Internal Audit	Federico GAI	Self-employed professional
Investor Relator	Vittorio VAUDAGNOTTI	Head of Management and Control for the Company

	Boards of Directors	Internal Audit Committee	Remuneration Committee	Supervisory Body
Number of meetings held during the period	8	2	-	2

TABLE 2:**OTHER POSITIONS FILLED BY MEMBERS OF THE BOARD OF DIRECTORS.***At 31 December 2013*

Progr. no.	Office	Members	Other office held	In LISTED COMPANIES (foreign too)	In BANKING OR INSURANCE COMPANIES	In COMPANIES OF SIGNIFICANT SIZE	In OTHER COMPANIES
1	Chairman	Luigi LUZZATI	Chairman Director	Acque Potabili S.p.A. - Torino		Mediterranea delle acque S.p.A. - Genova	
2	Director	Germano TURINETTO	Chairman		Terfinance S.p.A.	Vega Management S.p.A.	

