

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

**Annual report on *Corporate Governance* for 2014 –
Approved by the Board of Directors of 4 March 2015**

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Introduction.

The ordinary shareholders' meeting held on 30 April 2014 appointed the new Board of Directors, which will remain in office until the financial statements at 31 December 2016 are approved.

The Board of Directors is made up as follows:

-	Luigi Luzzati	Chairman
-	Riccardo Pozzoli	Executive Vice Chairman and Managing Director
-	Adele Artom	Director
-	Nicola Codispoti	Director with duties
-	Antonella Forchino	Director
-	Elsa Fornero	Independent Director
-	Maurizio Macchiavello	Managing Director at the Rapallo operating unit
-	Luciano Roasio	Independent Director
-	Alberto Tazzetti	Independent Director
-	Germano Turinetti	Independent Director

The company implemented the new governance code by board resolution of 04 November 2014.

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 2016 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 at Shareholders' Meetings.

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;
- Transferring the Company's registered office within the national territory;
- establishing or closing 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 articles 17 and 18 of the corporate by-laws;
- Appointing and dismissing the person in charge of the audit committee;
- reducing the share capital in case of shareholders' withdrawal;
- 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 ten 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:

- **Elsa Fornero**
- **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 6 times during 2014, 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 2013;

- Annual report on corporate governance for 2013;
- The annual report of the Supervisory Body;
- Report on the remuneration paid to the members of the management and audit bodies, general managers and other key management personnel
- Call of Shareholders' Meeting;
- assignment of powers to executive Directors;
- Verification of the independence requisites of the independent Board Members;
- Interim report on operations at 31 March 2014 and at 30 September 2014;
- Interim report at 30 June 2014;
- amendment to the Corporate Governance.

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 Audit and Risk Committee shall exchange information relevant to the performance of their respective tasks in a timely manner.

The Board of Statutory Auditors, appointed by the ordinary shareholders' meeting held on 30 April 2012 and which will remain in office until the 2014 financial statements are approved, is made up 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 RICETTI | Alternate Auditor |

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 AUDIT AND RISK COMMITTEE

The Audit and Risk 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 them independent)..

The members of the Audit Committee are:

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

The person in charge of the audit committee – Mr. Federico GAI – does not operate under any figure in charge of the operational areas, and answers to the managing directors, the audit and risk committee and the auditors.

2.1.1 ACTIVITY OF THE AUDIT AND RISK COMMITTEE

The audit and risk 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 offers 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 2014 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 2014 the person in charge of the audit and risk committee verified the following:

- the conditions of the documentation existing regarding the changes to corporate and/or regulatory conditions, and the possibility of improved integration within the Group;
- compliance with the model on the part of assignees, in particular as regards:
 - relations with customers, suppliers, intermediaries and control bodies;
 - application of Legislative Decree no. 81/2008 on safety in the workplace;
 - application of Legislative Decree no. 196/2003 on data management security;
 - application of environmental protection regulations
 - management of counterfeit money risk
 - information to assignees in the application of the model pursuant to Legislative Decree no. 231
- 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 adjustment of the model pursuant to Legislative Decree no. 231 and the related procedure for managing the model, the risk assessment forms and DPS, with a view to informing the whole Group and identifying a figure responsible for coordinating the management systems;
- the updating of the Code of Ethics to the changes in situations;
- the re-examination of risk assessment in the various situations, pursuant to the organisation model established by Legislative Decree no. 231
- 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 consistent application of the accounting standards 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 checks conducted in the Parent Company and its subsidiary, 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 and Risk Committee provided ample information to the Board of Directors.

During 2014 the Audit and Risk Committee met 6 times.

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:

- | | |
|---------------------|----------------------|
| ▪ Luciano Roasio | Independent Director |
| ▪ Alberto Tazzetti | Independent Director |
| ▪ Germano Turinetti | Independent Director |

During 2014, the Remuneration Committee met once to resolve upon the proposal of a variable remuneration system for the payment of executive directors. The criteria for evaluating performance targets are illustrated in the Report on Remuneration of the members of the control bodies.

2.3 SUPERVISORY BODY

The Board of Directors has charged the Audit and Risk 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.

During 2014 the Supervisory Body met 6 times.

3. TRANSACTIONS WITH RELATED PARTIES.

Article 11 of the Company's Self-Regulatory Code deals with the question of relations 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:

- **Nicola Codispoti** Director with duties

- **Alberto Tazzetti Independent Director**
- **Germano Turinetto Independent Director**

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 group leading 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 owned by the parent company Finanziaria Centrale del Latte di Torino S.p.A. for a total of € 8,148.

On the basis of the resolution passed by its Board of Directors and by the similar body at its subsidiary, 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 2014. That new taxation scheme allows any losses incurred by its subsidiary to be used to decrease the Group's tax base.

The Parent Company and its subsidiary 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 2014:

	Receivables			
	es	Payables	Costs	Revenue
Finanziaria Centrale del Latte di Torino S.p.A. vis-à-vis:				
Centrale del Latte di Torino & C. S.p.A. - subsidiary	-	-	-	8,148
Centrale del Latte di Torino & C. S.p.A. vis-à-vis:				
Finanziaria Centrale del Latte di Torino S.p.A. – ultimate parent company	-	-	8,148	-
Centrale del Latte di Vicenza S.p.A. - subsidiary	249,752	819,144	2,323,936	1,125,968
Odilla Chocolat S.r.l. - subsidiary	-	-	9,795	-
GPP S.r.l. – subsidiary	139,635	-	-	-
	389,387	819,144	2,341,879	1,125,968
Centrale del Latte di Vicenza S.p.A. vis-à-vis:				
Centrale del Latte di Torino & C. S.p.A.	819,144	249,752	1,125,968	2,323,936
Odilla Chocolat S.r.l. vis-à-vis:				
Centrale del Latte di Torino & C. S.p.A.	-	-	-	9,795
GPP S.r.l. vis-à-vis:				
Centrale del Latte di Torino & C. S.p.A.	-	139,635	-	-
Totals	1,208,531	1,208,531	3,467,847	3,467,847

4. PROCESSING OF PRICE-SENSITIVE INFORMATION

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, effective immediately, 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.

The following are the relevant entities that disclosed transactions equal to or greater than the threshold in accordance with the established terms and conditions in the course of 2014:

- Mr. Riccardo Pozzoli Executive Vice Chairman and Managing Director
- Ms Adele Artom Director
- Mr. Nicola Codispoti Director
- Mr. Alberto Bizzotto Managing Director of the subsidiary Centrale del Latte di Vicenza S.p.A.

5. INVESTOR RELATIONS DEPARTMENT

The Board of Directors appointed Mr. Edoardo Pozzoli and Mr. Vittorio Vaudagnotti as heads 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 2014, the Company met with analysts during the event organised by Borsa Italiana held on 25 March 2014 in Milan and 17 September 2014 for the presentation of interim results.

Turin, 8 March 2015

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	First year of office(1)	In office up to	List (2)	Executive	Non-executive	Indep. according to Code	Indep. according to TUF	% (3)	Audit Committee	Remuneration Committee	Supervisory Body	Committee for with related parties	No. of other offices
Chairman	LUZZATI Luigi	2000	Approval of 2016 Financial Statements	M	YES				100%					
Executive Vice Chairman and Managing Director	POZZOLI Riccardo	2000	Approval of 2016 Financial Statements	M	YES				100%					
Director	ARTOM Adele	2000	Approval of 2016 Financial Statements	M		YES			100%					
Director with duties	CODISPOTI Nicola	2009	Approval of 2016 Financial Statements	M	YES				100%				YES	
Director	FORCHINO Antonella	2006	Approval of 2016 Financial Statements	M		YES			100%	YES		YES		
Director	FORNERO Elsa	2014	Approval of 2016 Financial Statements	M			YES	YES	100%					1
Managing Director at Rapallo operating unit	Maurizio MACCHIAVELLO	2012	Approval of 2016 Financial Statements	M	YES				100%					
Director	ROASIO Luciano	2009	Approval of 2016 Financial Statements	M		YES	YES	YES	100%	YES	YES	YES		
Director	TAZZETTI Alberto	2002	Approval of 2016 Financial Statements	M		YES	YES	YES	100%	YES	YES	YES	YES	
Director	TURINETTO Germano	2001	Approval of 2016 Financial Statements	M		YES	YES	YES	50%		YES		YES	2

(1) Reference to listing year **(2)** **M** = Majority list **m** = minority list **(3)** percentage of attendance to boards and committees referring to the board meetings subsequent to appointment

Office	Name	
Head of Internal Audit	Federico GAI	Self-employed professional
Investor Relator	Edoardo POZZOLI	
Investor Relator	Vittorio VAUDAGNOTTI	

	Boards of Directors	Audit and Risk Committee	Remuneration Committee	Supervisory Body	Committee for with related parties
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Number of meetings held during the period	4	6	1	6	-
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TABLE 2:**OTHER POSITIONS FILLED BY MEMBERS OF THE BOARD OF DIRECTORS.***At 31 December 2014*

Progr. no.	Office	Members	Other office held	In LISTED COMPANIES (foreign too)	In BANKING OR INSURANCE COMPANIES	In COMPANIES OF SIGNIFICANT SIZE
1	Director	Elsa FORNERO	Director	BUZZI UNICEM S.p.A.		
2	Director	Alberto TAZZETTI	Director Chairman		Intesa San Paolo Assicura S.p.A.	Finanziaria Sviluppo Utilities (FSU) Srl
3	Director	Germano TURINETTO	Chairman		Terfinance S.p.A.	Vega Management S.p.A.