



AVIO GROUP

INTERNAL CONTROL SYSTEM

GUIDELINES

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AVIO GROUP INTERNAL CONTROL SYSTEM GUIDELINES

INTRODUCTION

The Internal Control System is an essential element of the Corporate Governance system of AVIO Group's Companies (AVIO S.p.A. and its subsidiaries), and plays a key role in identifying, minimizing and managing significant risks of the AVIO Group, thus contributing to the safeguarding of shareholders' investments and Company assets.

Moreover, the Internal Control System enable the effectiveness of Company operations and helps guarantee the reliability of financial information and compliance with laws and regulations. In particular, the accounting control system is an important element of the Internal Control System as it helps ensure that the Company is not exposed to excessive financial risks and the internal and external financial reporting is reliable.

The Internal Control System reduces, but cannot eliminate, the possibility of wrong decision, human error, fraudulent violation of the control systems and unforeseeable situations.

Therefore, a sound Internal Control System provides reasonable, but not absolute, assurance that the Company shall not be hindered in achieving its business objectives or the orderly and legitimate conduct of its business, by circumstances that may reasonably be foreseen.

1. DUTIES OF THE INTERNAL CONTROL SYSTEM

1.1 RESPONSIBILITIES OF THE BOARD OF DIRECTORS OF AVIO GROUP'S COMPANIES

The Board of Directors has ultimate responsibility for the Company's Internal Control System. In general, the Board of Directors of every AVIO Group's Companies shall:

- a) approve and adopt these Guidelines;
- b) examine Company risks brought to the attention of the Board of Directors by the Chief Executive Officer (CEO) and assess whether the Internal Control System ensures an appropriate management of these risks;
- c) control, at regular intervals, the proper and effective functioning of the Internal Control System, in order to ensure that the principal Company risks are appropriately identified and handled.

In particular, the Board of Directors of AVIO S.p.A. shall establish and update these Guidelines.

To properly discharge the duties assigned to its responsibility, the Board of Directors, where necessary due to the complexity of the Company structure, has to avail itself of the collaboration of specific supervising entities. Therefore, the Board of Directors shall:

- d) establish an Internal Control Committee (Audit Committee), assigning it advisory and proactive functions relative to the Internal Control System, and appoint the Committee members;
- e) appoint, upon proposal by the CEO, the Supervisor ("Preposto") of the Internal Control System, assessing his attributes of independence and professional competency.

1.2 RESPONSIBILITIES OF THE AUDIT COMMITTEE

With reference to the Internal Control System, the Audit Committee shall:

- a) assist the Board of Directors in establishing and updating the Guidelines;
- b) assist the Board of Directors in periodically controlling the proper and effective functioning of the Internal Control System, in order to ensure that the principal Company risks are appropriately identified and handled;
- c) assess the working plan prepared by the Supervisor of the Internal Control System and receive his periodic reports;
- d) assess the working plan prepared by the Internal Audit function and receive its periodic reports;
- e) report, at regular intervals, to the Board of Directors on the appropriateness of the Internal Control System;

- f) assess the organizational position, and ensure the effective independence of the Supervisor of the Internal Control System in the performance of his duties;
- g) assist the Board of Directors in assessing the yearly working plan prepared by the "Organismo di Vigilanza" (Compliance Officers Committee), if established in compliance with Legislative Decree No. 231/2001 on the administrative liability of Companies, and in assessing, at regular intervals, the results of the activities conducted by the same entity.

1.3 RESPONSIBILITIES OF THE CHIEF EXECUTIVE OFFICER

The CEO is responsible for:

- a) identifying the principal Company risks relative to the efficiency of its operations, the reliability of financial reporting, compliance with laws and regulations and the safeguarding of Company assets;
- b) submitting the above risks and the measures adopted to reduce and manage them, for examination and assessment to the Board of Directors annually, on the occasion of the Board Meeting for the approval of the consolidated balance sheet, and at any time that a new significant risk emerges, or that the extent of a risk already submitted to the Board of Directors changes substantially or the likelihood of it increases;
- c) planning, managing and monitoring the Internal Control System, pursuant to these Guidelines, and is accountable for it towards the Board of Directors;
- d) proposing to the Board of Directors the nomination of the Supervisor of the Internal Control System, to be chosen among those who satisfy the necessary attributes of independence and professional competency ;
- e) establishing the Supervisor in an organizational way so as to ensure his independence and provide him with appropriate resources to efficiently discharge his duties.

1.4 RESPONSIBILITIES OF THE "PREPOSTO"

The Supervisor of the Internal Control System is responsible for:

- a) assisting the CEO in the planning, managing and monitoring of the Internal Control System;
- b) examining the results of the audit activities carried out by the Internal Audit function in order to verify any deficiencies or inadequacies in the Internal Control System and requesting, whenever necessary, the implementation of specific checks to identify any failings and the need for improvement of internal control processes;

- c) verifying, with the aid of the Internal Audit function, that the rules and procedures constituting the terms of reference of the control processes are applied, and that all those involved operate in compliance with the set objectives;
- d) preparing an annual working plan, and submit it to the Audit Committee;
- e) drawing up, periodically, a report of his activities, and submit it to the CEO, the Audit Committee and the Statutory Auditors.

1.5 RESPONSIBILITIES OF THE INTERNAL AUDIT FUNCTION

The Internal Audit function is responsible for all the AVIO Group's Companies for:

- a) assisting the Company in maintaining the validity of the Internal Control System through assessment of its effectiveness and efficiency;
- b) assisting the Company in identifying and assessing the major exposure to risk, contributing to the improvement in the system of identification, reduction and management of risks;
- c) implementing specifically planned control activities in order to verify any deficiencies or inadequacies in the Internal Control System, identifying any failings and needs for improvement in the internal control processes;
- d) verifying that the rules and procedures constituting the terms of reference of the control processes are respected and that all those involved operate in compliance with the set objectives.

1.6 RESPONSIBILITIES OF EMPLOYEES

All Group employees, according to the duties assigned to them within the Company organization, shall ensure an effective functioning of the Internal Control System as part of their responsibility in achieving objectives.

Therefore, they must have the necessary knowledge, training and skills to operate within the area of the Internal Control System, and must be allowed to discharge the duties consistent with their role, and carry out their responsibilities.

This implies that all employees have the right and the duty to have full knowledge and understanding of the Company in which they work, and the Group, of the operating mechanisms, the objectives, the markets in which it operates, and the risks to which it is exposed daily.

2. GUIDELINES

2.1 IDENTIFICATION OF RISKS

In identifying risks to be submitted to the Board of Directors, the CEO must focus on risks of high potential impact on the Company. Such risks shall be identified on the basis of the following criteria :

- a) the nature of the risk, particularly as regards financial risks, including those concerning the correct application of financial and pledge contracts signed by the Company, those relative to the compliance with accounting standards, and those that could adversely impact the Company image and reputation;
- b) the likelihood of the risks materializing;
- c) the Company's limited ability to reduce the impact of the risks on its business;
- d) the extent of the risk.

2.2 IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

The Internal Control System comprises policies, processes and conduct that, all things considered, allow every Company of the Group to :

- a) facilitate the efficiency of its operations, enabling it to appropriately respond to operational, financial, legal and other risks, which interfere with the achievement of its business objectives;
- b) guarantee the quality of its internal and external reporting system, which requires the utilization of an effective system of records and processes that generates an important and reliable flow of information, both inside and outside the organization;
- c) ensure compliance with laws and regulations, and internal procedures;
- d) safeguard Company assets from inappropriate or fraudulent use or loss.

To this purpose, the CEO shall make sure that the Internal Control System:

- ◆ is an integral part of the Company's operativeness and culture, implementing, to that end, appropriate information, communication and training processes, and reward and disciplinary systems, which provide incentives for a correct management of risks and discourage conduct contrary to the principles dictated by the processes;
- ◆ be able to respond promptly to significant risk situations arising from within the Company and from changes in the business environment in which the Company works;

- ◆ includes procedures for immediate communication to an appropriate level of the Company, by implementing adequate organizational solutions to ensure the access of the functions, directly involved in the Internal Control System, to the necessary information and to the top management;
- ◆ provides for regular control activities on the effectiveness of the Internal Control System, as well as the possibility of implementing specific control activities should any weaknesses in the Internal Control System be reported;
- ◆ facilitates the identification and timely execution of corrective measures.

2.3 ASSESSMENT OF THE INTERNAL CONTROL SYSTEM'S EFFECTIVENESS

The periodic assessment of the adequacy and effective functioning, and potential review of the Internal Control System, is a key element of its structure in order to ensure its full and correct efficiency.

This periodic review is entrusted to the Board of Directors, with the assistance of the Audit Committee, where existing.

In performing this review, the Board of Directors shall take care not only to verify the existence and the operation of an Internal Control System within the Company, but also to periodically carry out a detailed examination of the structure of the same System, its appropriateness, and its effective and concrete functioning.

To this purpose, the Board of Directors shall receive and examine the reports from the "Preposto", previously examined by the Audit Committee and the CEO, or prepared by the CEO himself, with the aim of assessing whether the structure of the Internal Control System in place in the Company is concretely effective in pursuing the objectives, and whether any reported weaknesses call for an improvement in the System.

Moreover, the Board of Directors annually, on the occasion of the Board Meeting for the approval of the consolidated balance sheet, must :

- examine which are the significant risks submitted to its attention by the CEO and assess how the above risks have been identified, evaluated and managed. To this purpose, a particular care has to be taken in examining the changes intervened during the year and the nature and extent of the risks, and in evaluating the reaction of the Company to these changes;
- assess the Internal Control System appropriateness to face these risks, taking particular care of possible inefficiencies reported;
- assess the measures adopted or have to be promptly adopted to reduce and manage these risks;
- prepare any additional policies, processes and rules of conduct, which will enable the Company to react appropriately to situations of new risks or risks not handled satisfactorily.