



**EXPLANATORY REPORT
BY THE BOARD OF DIRECTORS
OF GEFran S.p.A.
On items on the agenda**

1. Annual financial statements for the year ending 31 December 2015.

1.1 Approval of the annual financial statements for the year ending 31 December 2015; reports of the Board of Directors, Board of Statutory Auditors and External Auditors.

1.2 Coverage of the loss for the year.

2. Appointment of the External Auditors.

2.1 Appointment of the external auditors for the years 2016-2024, pursuant to article 13, paragraph 1 of Legislative Decree 39 of 27 January 2010.

2.2 Approval of the relative fee.

3. General Group Remuneration Policy. Consultation on the first section of the Report on Remuneration, pursuant to paragraph 6, article 123-ter of Legislative Decree 58/1998.

4. Revoking of the previous authorisation to buy and sell own shares and release of new authorisation.

**FOR THE ORDINARY SHAREHOLDERS' MEETING
OF 21 APRIL 2016**

The documentation relating to items on the agenda is available on the website www.gefran.com, and was published pursuant to the laws in force.

Dear Shareholders,

We hereby submit for your approval the annual financial statements for the year ending 31 December 2015, which show a net loss for the year of EUR 1,345,760.

Note that the legal reserve reached the limit set by the Italian Civil Code some time ago, and that the available reserves amply cover the development costs recorded under non-current assets.

We propose to cover the loss for the year using available reserves. We therefore submit for your approval the following resolution:

“The Ordinary Shareholders' Meeting of Gefran S.p.A., having taken note of the Board of Statutory Auditors' Report and the External Auditors' Report, votes:

1. *to approve the Board of Directors' Report on Operations and the annual financial statements for the year ending 31 December 2015, which show a loss of EUR 1,345,760, as presented by the Board of Directors;*
2. *to cover the loss using retained earnings in the same amount;*
3. *to not pay out dividends.”*

Provaglio d'Iseo, 10 March 2016

For the Board of Directors
Chairman
Ennio Franceschetti

Dear Shareholders,

In conjunction with the approval of the financial statements as at 31 December 2015, the term of the audit engagement assigned to the external auditors BDO Italia S.p.A. for the years 2007-2015 by the Ordinary Shareholders' Meeting of 26.04.2007, based on a reasoned proposal put forward by the Board of Statutory Auditors, expired.

Therefore, the Board of Shareholders submits for the approval of the Ordinary Shareholders' Meeting called for 21 April 2016 the reasoned proposal put forward by the Board of Statutory Auditors pursuant to article 13, paragraph 1 of Legislative Decree 39 of 27 January 2010, with respect to the engagement of PriceWaterhouseCoopers SpA to audit the accounts of Gefran S.p.A. for the years 2016-2024, transcribed below:

**“REASONED PROPOSAL FOR THE ENGAGEMENT OF THE
EXTERNAL AUDITORS TO AUDIT THE SEPARATE AND CONSOLIDATED FINANCIAL
STATEMENTS
PURSUANT TO LEGISLATIVE DECREE 58/98 AND ART. 13 OF LEGISLATIVE DECREE
39/2010,
AS PER ART. 2409 BIS ET SEQ. OF THE ITALIAN CIVIL CODE**

To the Shareholders of **Gefran SpA**,

The Board of Statutory Auditors

Whereas

- the Shareholders' Meeting (hereinafter, the “Meeting”) is required to vote on the engagement of the external auditors, as the term of the engagement of the current external auditors **BDO Italia Spa**, with registered office in Milan, viale Abruzzi 94, tax code and VAT No. 07722780967, will soon expire;
- the Meeting to discuss and vote on the approval of the financial statements as at 31/12/2015 as well as the engagement of the external auditors has been scheduled for 21 April 2016 at the registered office of the Company;
- art. 13 of Legislative Decree 39 of 27 January 2010 requires the Meeting to assign the engagement at the reasoned proposal of the Board of Statutory Auditors;
- in view of the expiry specified above, Gefran **SpA** has taken action to select the external auditors of Gefran **SpA** as well as its subsidiaries, to ensure compliance with laws and regulations relating to the Corporate Groups of listed companies;

Considering that

- the subject of the engagement is, for each year: auditing the financial statements, and checking that the accounts are properly maintained and that accounting entries properly reflect operations, as well as the consistency of the report on operations;

- **Gefran SpA** has identified the main external auditors operating in Italy and has called their representatives for informational interviews and to collect offers;
- the Board of Statutory Auditors has taken note of the procedure adopted by the Company, while diligently monitoring the process and the selection criteria, overseeing until the very end of the selection process the quality of the methods used and the decisions taken by the parties concerned;
- the comparative and overall analysis of the offers received was conducted specifically with reference to:
 - i. organisational and logistical capacities, as well as an evaluation of skills and experience with reference to the sector in which the Company operates and the typical features of its operations;
 - ii. the adequacy of the technical and organisational structure in relation to requirements connected with the size and complexity of the corporate structure;
 - iii. the independence and autonomy of judgement with respect to the Company (and the group) and the procedures put into place by each auditing company to check for the fulfilment of the requirement of independence with respect to the Company and to confirm that there are no reasons for ineligibility;
 - iv. the consistency of the fees requested in relation to the timing considered in the individual offers;
 - v. expenses and market conditions.

Noting that

- after the examination of the results of meetings held and the financial offers received, it was confirmed that PricewaterhouseCoopers SpA received the best evaluation.

Having found that

1. PricewaterhouseCoopers SpA is enrolled in the Register of Auditors at the Ministry of Economy and Finance, no. 119644;
2. the audit plan that it submitted is complete and adequate in relation to the audit activities required by provisions of law and the company's needs;
3. as things currently stand, the documentation and information available to the board has not brought to light justified reasons that could lead it to believe that there are any situations of incompatibility or elements that could compromise the independence of PricewaterhouseCoopers SpA;
4. PricewaterhouseCoopers SpA has put suitable procedures into place to check for the fulfilment of the independence and objectivity requirements pursuant to art. 10 of Legislative Decree 39/2010;
5. PricewaterhouseCoopers SpA has an adequate organisation and technical/professional suitability in relation to the breadth and complexity of the engagement;
6. the total annual fees requested by PricewaterhouseCoopers SpA, as specified in its proposal, are consistent with the audit plan and the fees normally applied, also in relation to the time required to carry out the engagement considered in the proposal;
7. the Partner responsible for the engagement identified in the proposal of PricewaterhouseCoopers SpA is Alessandro Mazzetti.

Proposes

On the basis of the justifications set forth, that the audit engagement for the nine-year period 2016-2024 be assigned by the Shareholders' Meeting pursuant to art. 13, paragraph 1 of Legislative Decree 39/2010, in compliance with the fees set forth for the entire term of the engagement, as well as the criteria for adjustment in the course of the engagement, to the external auditors:

PricewaterhouseCoopers SpA

Registered office in Milan, Via Monte Rosa, 91

VAT No. and tax code 12979880155

Enrolled in the Register of Auditors at the Ministry of Economy and Finance, no. 119644

Audit manager: Alessandro Mazzetti

Provaglio d'Iseo, 11 February 2016

The Board of Statutory Auditors

Marco Gregorini

Alessandra Zunino de Pignier

Primo Ceppellini

The detailed calculation of annual fees established for the company **Gefran SpA** is attached.

Company	Fees and audit scope				Hours required
	Statutory €	Consolidated €	Half-yearly report limited review €	Total €	
Gefran SpA	55,500	12,500	17,500	85,500	1,091
Audit of Group companies				203,000	2,324
TOTAL				288,500	3,415

Dear Shareholders,

Pursuant to the Code of Conduct of Listed Companies and article 123-ter of the Consolidated Finance Act (TUF), the Company has adopted a General Remuneration Policy, to be submitted to the Shareholders' Meeting for a consultative vote.

The policy was approved by the Board of Directors on 10 March 2016 and is published in full on the company website. It contains the guidelines for the remuneration of executive officers and management. In particular, the policy defines the remuneration mix, specifying the fixed and variable components.

The Ordinary Shareholders' Meeting of Gefran S.p.A. shall therefore be asked to vote in favour of or against the General Group Remuneration Policy adopted by the Company and contained in section one of the Report.

Provaglio d'Iseo, 10 March 2016

For the Board of Directors
Chairman
Ennio Franceschetti

Dear Shareholders,

This report was prepared pursuant to article 73 and Annex 3A, schedule 4 of the rules adopted by Consob with resolution 11971 of 14 May 1999 as amended (the “Issuer Regulation”), and was approved by the Board of Directors on 10 March 2016.

At that meeting, the Board decided to submit for the approval of the Shareholders’ Meeting – convened in ordinary session for 21 April 2016 – pursuant to articles 2357 and 2357-ter of the Italian Civil Code and article 132 of Legislative Decree 58 of 24 February 1998 (“TUF”), authorisation to purchase and sell, on one or more occasions, a number of ordinary shares in the Company representing a maximum of 10% of the share capital (at the date of this Report, a maximum of 1,440,000.00 ordinary shares with a nominal value of EUR 1.00 per share).

It is also proposed to revoke the previous authorisation granted by the Shareholders’ Meeting on 29 April 2015, which will be replaced by the new authorisation mentioned in this Report.

There therefore follows a brief outline of the reasons and procedures for purchasing and own shares in the Company for which the Board of Directors seeks authorisation.

1. Reasons for requesting authorisation to purchase and sell own shares

The request for authorisation to purchase and sell own shares is in order to give the Company a valuable tool providing strategic and operational flexibility that would enable it to:

- act directly or through authorised brokers to limit any irregular movement in trading of the share and to regulate trading performance and runs due to excessive volatility or lack of liquidity in trading; these measures shall be taken without prejudice to the equal treatment of shareholders;
- offer shareholders an additional tool to monetise investments.

The Board of Directors recommends that the Company has this option at its disposal, particularly when disposing of the own shares purchased, also in order to capitalise on opportunities to maximise value that may arise on the market, therefore for the purpose of trading.

2. Maximum number, category and nominal value of the shares to which the authorisation relates

As of the date of this Report, the share capital was EUR 14,400,000.00, represented by 14,400,000 ordinary shares with a nominal value of EUR 1.00 per share.

The maximum number of own shares to be purchased is 1,440,000.00, or a maximum of 10% of the share capital, taking into account the own shares held directly and any shares held by subsidiaries in the case of resolutions for increases and reductions while this authorisation remains effective.

In any case, the number of own shares that may be purchased shall not exceed the amount that can be covered, in relation to the purchase price, by the available reserves shown in the last approved financial statements.

In this regard, it should be noted that the following figures were shown in the financial statements for the year ending 31 December 2014, duly approved on 29 April 2015:

- available reserves: EUR 31,827,000 (now EUR 31,510,129).

3. Provisions pursuant to article 2357, paragraph 3 of the Italian Civil Code

In order to assess compliance with the limits set out in article 2357, paragraph three, as of today's date, the Company and its subsidiaries hold a total of 192,233 own shares, corresponding to 1.33% of the share capital.

4. Duration of authorisation

The authorisation to purchase own shares is requested for a period of 18 months from the date of the Shareholders' Meeting that voted to grant the authorisation.

Authorisation to dispose of any own shares purchased is requested without a time limit.

5. Minimum and maximum payments and market valuation

The Board of Directors proposes that own shares should be purchased at a unit price that is not less than their nominal value and not higher than the average price over the last three trading days prior to the purchase date plus 15%.

Concerning the price at which to sell own shares purchased, the Board of Directors shall have discretionary power to determine at the time any additional condition, procedure and deadline, while taking into consideration the procedures used, the share prices in period prior to the transaction and the Company's best interests. The minimum price may not be more than 10% lower than the price registered during the trading session prior to each disposal.

This price minimum shall not be applied in the case of disposal by means of exchange, transfer or any other means possible for acquiring shareholdings, implementation of industrial projects and other extraordinary financial transactions that involve assigning or disposing of own shares (such as, but not limited to, mergers, spin-offs, etc.).

The Board of Directors also proposes that, based on a prudent appraisal, own shares may be assigned, in full or partially, as dividends.

6. Procedures for the purchase and sale of shares

Purchase transactions shall start and end within the timeframe established by the Board of Directors following this authorisation.

Own shares shall be purchased in compliance with applicable law and regulatory provisions in force and, in particular, with article 132 of the TUF and article 144-bis, letters a) and b) of the Issuer Regulation:

- a) through a public tender or exchange offer;
- b) on regulated markets in accordance with the operational procedures set out in the rules of the markets in question, which do not allow direct association of purchase proposals with pre-determined sales offers.

Amongst the various procedures allowed by the Issuer Regulation, conducting purchases on regulated markets is considered preferable for the purposes mentioned above, particularly with a view to stabilising the share price. This objective can be achieved more effectively through a simple, flexible mechanism such as direct purchase on the market in a timely and gradual manner according to need. Possible recourse to a public tender or exchange offer is therefore not ruled out.

Own shares may be purchased in a different manner from those set out above where allowed by article 132, paragraph 3 of the TUF or other provisions applicable as of the date of the transaction.

Furthermore, share purchases may be conducted in accordance with article 3 of Regulation (EC) 2273/2003, in order to benefit, where possible, from the exception to the provisions on market abuse pursuant to article 183 of the TUF, concerning insider dealing and market rigging.

Shareholders and the market shall be given timely information pursuant to article 144-bis, paragraphs 3 and 5 of the Issuer Regulation.

Concerning sales transactions, the Board proposes that the authorisation should enable these to be conducted, on one or more occasions, without time limits, and in the manner deemed appropriate to achieve the objective in question, including selling on the stock market, lot trading, institutional placement, through the placement of structured securities of any kind and nature or as payment for the acquisition of shareholdings in companies and/or goods and/or assets.

It should be pointed out that the request for authorisation concerns the ability to carry out repeated and consecutive transactions to buy, sell or dispose of own shares in a revolving manner (meaning the maximum amount of own shares held in the portfolio at the time) also for fractions of the maximum amount authorised.

The Board proposes that the authorisation should provide an obligation for the Board of Directors to carry out transactions to buy and sell own shares while guaranteeing not to jeopardise the Company's capacity to maintain the minimum amount of floating securities required for STAR qualification.

Lastly, it is proposed that the mandates and powers of attorney relating to the completion of transactions on own shares, as conferred by the Board in compliance with the previous authorisation of 29 April 2015, be confirmed.

7. Other business

The purchase of own shares shall not be used to reduce share capital by cancelling the own shares purchased.

For the reasons set out above, the Board of Directors of Gefran S.p.A. asks you to pass the following resolutions:

“The Ordinary Shareholders' Meeting of Gefran S.p.A.

- *having acknowledged the Board of Directors' Report;*
- *having considered articles 2357 et seq. of the Italian Civil Code, article 132 of Legislative Decree 58 of 24 February 1998, article 144-bis of the regulation adopted with Consob resolution 11971 of 14 May 1999, as amended;*
- *having taken into consideration the 225,828 own shares in the portfolio of Gefran S.p.A. and its subsidiaries as of 10 March 2016;*
- *having considered the annual financial statements for the year ending 31 December 2015*

votes

- 1.** *to revoke the previous authorisation to purchase and sell own shares, approved by the Shareholders' Meeting of 29 April 2015, lasting 18 months;*

- 2.** *to authorise the Board of Directors, pursuant to article 2357 et seq. of the Italian Civil Code, to purchase a maximum number of 1,440,000.00 ordinary shares or a different amount representing 10% of the share capital in the case of resolutions to increase and/or reduce the share capital during the authorisation period, also taking into account shares that may be held by the Company's subsidiaries, and in any case in compliance with the limits laid down by law, in order to pursue the objectives set out in the Report by the Board of Directors, and in accordance with the following terms and conditions:*
 - *transactions to buy own shares may be conducted on one or more occasions in a revolving manner (meaning the maximum amount of own shares held in the portfolio at the time), until the end of the eighteenth month starting from the date of this resolution;*
 - *purchases may be conducted according to one of the methods provided for by article 132 of Legislative Decree 58 of 24 February 1998 and article 144-bis, letters a) and b) of the Issuer Regulation adopted with Consob resolution 11971/1999, taking into consideration – where necessary – the exception provided by paragraph 3 of article 132 of Legislative Decree 58/1998, and in any case using any other method provided for by the law and regulatory provisions in force at the date of the purchase;*
 - *the unit price to purchase own shares may not be less than their nominal value and may not be higher than the average price over the last three trading days prior to the purchase date plus 15%.*
 - *transactions to buy and sell own shares shall be conducted by the Board of Directors in a manner so as not to jeopardise the Company's capacity to maintain the minimum amount of floating securities required for STAR qualification;*

- 3.** *to authorise the Board of Directors, pursuant to article 2357-ter of the Italian Civil Code, to sell, on one or more occasions, the own shares purchased from time to time and held in the portfolio, in accordance with the regulatory provisions and legal rules in force at the time and to pursue the objectives set out in the Board of Directors' Report to the shareholders, and under the following terms and conditions:*
 - *the shares may be disposed of or sold at any time and without any time limit, and may also be assigned, also partially, as dividends;*
 - *transactions may be conducted even before all purchases have been made, and may be conducted on one or more occasions, without time limits, and in the manner deemed appropriate to achieve the objective in question, including selling on the stock market, lot trading, institutional placement, through the placement of structured securities of any kind and nature or as payment for the acquisition of shareholdings in companies and/or goods and/or assets;*

- *the minimum price may not be more than 10% lower than the price registered during the trading session prior to each disposal. This price limit shall not be applied in the case of a disposal other than sale, and in particular, in the case where the disposal is by exchange, transfer or other means possible for acquiring shareholdings, implementing industrial projects or other extraordinary financial transactions that involve assigning or disposing of own shares;*
- 4.** *to grant the Board of Directors, with the express right to delegate, the broadest powers, without exception, necessary and useful for the execution of this resolution, also approving all provisions of the purchase plan, in accordance with any requirements set by the competent authorities; as well as the introduction in the wording of the resolutions passed of any amendments required by the aforementioned authorities, the Notary or the competent Business Register for registration. The mandates and powers of attorney already conferred by the Board relating to the previous authorisation of 29 April 2015 remain in force and valid”.*

Provaglio d’Iseo, 10 March 2016

For the Board of Directors
Chairman
Ennio Franceschetti