

**CIR S.p.A.**  
**ANNUAL REPORT ON THE SYSTEM OF**  
**CORPORATE GOVERNANCE AND ON COMPLIANCE WITH**  
**THE CODE OF CONDUCT FOR LISTED COMPANIES**

**- YEAR 2010 -**

**REPORT ON THE CORPORATE GOVERNANCE AND SHAREHOLDING STRUCTURE**  
*(in accordance with Art. 123-bis of the Finance Consolidation Act - T.U.F.)*

This Report aims to illustrate the model of corporate governance that CIR S.p.A. (hereinafter referred to as the “Company”) adopted during the year 2010.

The Report, which was approved by the Board of Directors Meeting held on March 10 2011, is being made available to the Shareholders together with the rest of the documentation for the Shareholders’ General Meeting being called to approve the Financial Statements for the year ended December 31 2010, and is also being sent at the same time to the Italian Exchange in order to facilitate its release to the public and can also be consulted on line – together with other documents of interest to the market - on the website [www.cirgroup.it](http://www.cirgroup.it) in the section “Governance”.

**Information on the ownership structure (Art. 123bis, paragraph 1, T.U.F.) as of December 31 2010**

**a) Share capital structure (as per Art. 123-bis, paragraph 1, letter a) T.U.F.)**

The subscribed and fully paid up share capital amounts to € 396,058,633.50, comprising 792,117,267 ordinary shares, listed on the MTA, Italian Equities Market, of the Milan Stock Exchange – FTSE Italia Mid Cap index.

All of the ordinary shares have the same rights and obligations. CIR shares – as stipulated in Art. 5 of the Company Bylaws – are indivisible.

In the event of joint ownership of one or more shares, the rights of the joint owners towards the Company, in accordance with Article 2347 of the Civil Code, shall be exercised by a joint representative.

It should be noted that the information document prepared in accordance with the provisions of Art. 84-bis of Consob Regulation 11971/99, relating to Stock Option Plans, is available on the Company’s website in the section “Governance”.

**b) Restrictions on the transfer of shares (as per Art. 123-bis, paragraph 1, letter b) T.U.F.)**

The shares of the Company are freely transferable, with the exception of certain restrictions applicable to given categories of persons for limited periods of time on the basis of the Code of Conduct on the subject of Internal Dealing published on the website of the Company in the section “Governance”.

**c) Significant holdings of capital (as per Art. 123-bis, paragraph 1, letter c) T.U.F.)**

Below is a list of the names of Shareholders of last resort who, at December 31 2010 were holding either directly and/or indirectly percentages of ownership of over 2% of the capital with voting rights, in accordance with the terms of Consob resolution 11971/99:

Ing. Carlo De Benedetti (through COFIDE S.p.A.): 45.92%  
Bestinver Gestion SA SGIIC: 11.43%  
Asset Value Investors Limited: 2.23%

**d) Shares which give special rights (as per Art. 123-bis, paragraph 1, letter d) T.U.F.)**

There are no shares that give their holders any special controlling rights.

**e) Employee shareholdings: mechanism for the exercise of voting rights (as per Art. 123-bis, paragraph 1, letter e) T.U.F.)**

There are no special mechanisms for the exercise of voting rights by employees who have shareholdings.

**f) Restrictions on voting rights (as per art. 123-bis, comma 1, letter f) T.U.F.)**

There are no restrictions on voting rights. It should be noted that the Company Bylaws stipulate that for the election of the members of the Board of Directors only Shareholders who, either alone or with other Shareholders, represent at least one fortieth of the share capital or any other percentage that may be determined in accordance with the law or with regulations, may present lists of candidates. Moreover Shareholders who, alone or with others, represent overall less than 20% of the share capital, can present lists containing no more than three candidates. For the election of the Board of Statutory Auditors, only Shareholders who, alone or with others, represent at least 2% of the share capital can present lists of candidates, and they must be able to prove that they own the required number of shares.

**g) Agreements between Shareholders (as per Art. 123-bis, paragraph 1, letter g) T.U.F.)**

The Company is not aware of the existence of any agreements between Shareholders as per the terms of art. 122 of the TUF.

**h) Change of *control clauses* (as per Art. 123-bis, paragraph 1, letter h) T.U.F.)**

No agreements have been entered into by CIR S.p.A. or its direct or indirect subsidiaries containing a change of control clause, i.e. clauses that take effect in the event of the change of the controlling stake of CIR S.p.A.

**i) Compensation to Directors in the event of resignation, dismissal without just cause or termination of their position following a takeover bid (as per Art. 123-bis, paragraph 1, letter i) T.U.F.)**

Reference should be made to what is illustrated in point 7) of the Report on the Compensation of Directors.

**l) Election and replacement of Directors; amendment of the Company Bylaws (as per Art. 123-bis, comma 1, letter l) T.U.F.)**

For the election and replacement of Directors reference should be made to what is illustrated in point 6) of the Report on the appointment of Directors. For amendments to the Bylaws, legal regulations are applied.

**m) Power delegated to increase the share capital and authorization to buy back the Company's own shares (as per Art. 123-bis, paragraph 1, letter m) T.U.F.)**

For a period of five years starting from April 30 2009 the Board of Directors has the right to increase the share capital either once or more than once to a maximum of EUR 500,000,000 nominal value through the issuance of shares with or without a share premium. These shares will be offered in subscription or will service warrants or the conversion of bond issues including issues made by third parties, both in Italy and abroad, or else they will be assigned free of charge to holders of option rights by allocating to share capital available reserves or provisions on the basis of the latest financial statements approved.

For a period of five years starting from April 30 2009 the Board of Directors also has the right to increase the share capital either once or more than once to a maximum of EUR 20,000,000 of nominal value through the issuance of shares to be reserved for subscription by employees of the Company and of its subsidiaries and parent companies in accordance with Article 2441, last paragraph, of the Civil Code. The same Board shall have the right to fix the price of issuance (which may

not be lower than the nominal value of the shares), the requirements for subscription and the limits of the availability of the same shares, as well as the general terms and procedures for the said subscription.

For a period of five years starting from April 30 2009 the Board of Directors has the right to issue, once or more than once, even without the option right, and in that case in favour of institutional investors, convertible bonds or bonds with warrants attached, which may also be in a foreign currency, if permitted by law, with a corresponding increase in share capital – with a limit of ten per cent of the share capital existing in the event of the option right not being included - up to an amount which, taking into account the bonds in circulation at the date on which the issuance is approved, shall not exceed the limits established by regulations in force at the time of the Board resolution.

And more in general the Board also has the right to define the procedures, terms and conditions of the bond issuance and the rules governing such issuance.

The Annual General Meeting of the Shareholders held on April 30 2010 authorized the buy-back of CIR stock in accordance with and as an effect of Art. 2357 of the Civil Code for a period of eighteen months from today, according to the following procedure:

- A maximum of 30,000,000 shares (in addition to the shares already being held) can be bought back for a nominal value of Euro 15,000,000, which shall not in any circumstances exceed one fifth of the share capital of CIR with a maximum disbursement limit of Euro 50,000,000; the Company will increase its current non-available reserve, called the “reserve for treasury stock held” by the amount of the shares bought back, charging the same amount to the “retained earnings” reserve, resulting from the Financial Statements as of December 31 2009, the last ones approved. The unit price of each single share purchase transaction shall not be more than 10% higher or lower than the benchmark price recorded by the shares of the same category on the Stock Exchange trading day prior to that on which the purchase is made or to the date on which the price is fixed. Compared to the previous resolution the maximum number of shares that can be purchased daily on the market has now been fixed in accordance with the limit imposed by EC Regulation no. 2273/2003;
- The purchase may take place as follows:
  - a) through a public offering to purchase or exchange shares;
  - b) on regulated markets following the operating procedures established in the rules for the organization and management of those same markets, which do not allow bids and offers to be matched directly and must be made in such a way as to ensure an equal treatment of all the Shareholders, in compliance with

the terms of Art. 132 of D.Lgs. 58/1998 and legislation or regulations in force at the moment of the transaction;

- c) through the purchase and sale of derivative instruments traded on regulated markets which involve the physical delivery of the underlying stocks and which comply with the further conditions stipulated in art. 144-bis of Consob resolution no. 11971 and the amendments and additions subsequently made to it;
- d) through the assignation of put option rights pro rata to the Shareholders, to be assigned within 15 months and which shall be exercisable in a period of up to 18 months from this resolution;

As of December 31 2010 43,074,000 own shares were being held as treasury stock.

**Other information (as per Art. 123-bis, paragraph 2, T.U.F.)**

**a) Compliance with a code of conduct on the subject of corporate governance.**

The Company complies with the Code of Conduct (March 2006 edition) prepared by the Committee for the Corporate Governance of Listed Companies and promoted by Borsa Italiana S.p.A.

**b) Main characteristics of the existing risk management and internal control systems in relation to the financial information process.**

Reference should be made to what is described in point 8) of the Report on the internal control system.

**c) How the Shareholders' Meeting functions.**

Reference should be made to what is described in point 12) of the Report on Shareholders' Meetings.

**d) Composition and functioning of the administrative and control bodies and their committees.**

Reference should be made to what is described in the sections of the Report that deal with: the Board of Directors (point 2), the Statutory Auditors (point 10) and the Committees (points 5-7 and 8).

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## **1) Role of the Board of Directors**

According to the Bylaws, the Board of Directors has full powers of ordinary and extraordinary administration of the Company and has the power to carry out any action that it considers opportune in order to pursue and achieve the Company's objectives, with the exception of such powers that according to the law or the Bylaws reside exclusively with the Shareholders' Meeting.

The Board of Directors can approve a reduction of share capital in the event of the withdrawal of Shareholders, an adjustment of the Bylaws to bring them into line with regulations, the transfer of the registered offices within the limits of the national territory as well as the merger by incorporation of a wholly owned company or one in which a stake of at least 90% is held, in compliance with Articles 2505 and 2505-bis of the Civil Code. The Board can also approve the issue of convertible bonds or bonds with warrants attached within the limits of current legislation.

Among Italian financial holding companies, this Company is distinguished by the way its investment portfolio is balanced between companies with strong positions in their respective markets belonging both to mature business sectors with a relatively constant cash flow and to sectors with high growth potential in sharply different business environments (publishing, energy, automotive components, healthcare).

Thus, in the light of its specific characteristics and in application of the terms of Article 1 of the Code of Conduct, the Board of Directors:

- Examines and approves the strategic and financial plans of the issuer and also examines the consolidated strategic, business and financial plans of the subsidiaries at the head of the groups in the various business sectors as presented by their respective Chief Executive Officers, assessing whether these plans are consistent with that of the issuer;
- Evaluates the adequacy of the organizational, administrative and general accounting structures of the issuer and the subsidiaries of strategic importance as prepared by the Chief Executive, with particular reference to the system of internal control and the management of conflict of interest;
- Assigns and revokes the powers of attorney given to the Chief Executive Officer and establishes the frequency, generally every three months, with which he shall report back to the Board on the activity carried out during the exercise of his powers;
- Determines the remuneration of the Chief Executive Officer and those who hold special positions at the proposal of the Compensation Committee and after consulting with the Board of Statutory Auditors;
- Monitors the progress of operations taking into consideration, in particular, the information received from the Chief Executive Officer of the Company and the Chief Executives of the main subsidiaries, analysing the business and the evolution of the income and equity situation of the Company and of the Group;

- Examines and gives prior approval to transactions put in place by the issuer and examines those of the subsidiaries that have significant impact (\*) for the issuer from the economic, equity and financial viewpoint, adopting any resolutions (while respecting the principle of operating independence of the companies). It pays particular attention to situations where one or more directors have either a personal interest or an interest on behalf of someone else and, more generally, it pays attention to transactions with related parties;
- Carries out at least once a year an assessment of the size, composition and functioning of the Board of Directors and of its committees, possibly expressing guidelines concerning the professional figures whose presence on the same would be considered useful.

For 2010 each Director of the Company gave a structured written assessment of the composition and functioning of the Board of Directors. The Internal Control Committee produced a summary of this which was discussed by the Board of Directors as part of the process of self-assessment required by the Code of Conduct.

The Directors act and adopt resolutions independently on the basis on their knowledge and good judgment and they accept the position when they consider that they can dedicate the necessary time to carrying out their duties, bearing in mind also the number of directorships or positions of statutory auditor that they hold in other companies listed on regulated markets, finance companies, banks, or insurance companies of a significant size. They are furthermore required to inform the Board of Directors of any other activities they may have in competition with the issuer and of any significant changes that occur in the positions they hold in other companies.

The Board did not deem it appropriate to establish a maximum total number of positions that each Director may hold or to establish whether these are more or less compatible or incompatible, reserving the right to evaluate individual cases.

On April 30 2009, the Shareholders' Meeting appointed Mr Carlo De Benedetti as Honorary Chairman and Mr Stefano Micossi as Director. At the end of the Shareholders' Meeting, the Board of Directors of the Company appointed Mr Stefano Micossi as Chairman, assigning the following new powers to the Chairman and to the Chief Executive Officer:

- The Chairman of the Company, Mr Stefano Micossi, was given the power to represent the Company legally with his single signature, and as such was given the power to represent the Company with third parties whether public or private, before any judicial or administrative authority and the power to sign in his aforesaid role any document, deed, transaction or correspondence in the name of and on behalf of the Company with the right to appoint someone else to take his place;

*(\*) transactions of significant impact means those of particular strategic importance for the Group given their effects on the consolidated economic, equity and financial situation and/or of the medium/long term commitments resulting from them.*

- The Chief Executive Officer, Mr Rodolfo De Benedetti, was assigned full powers of ordinary and extraordinary administration of the Company, to be exercised with his single signature, with the exclusion of the powers vested in the Board of Directors for:
  - (i) Matters, transactions or decisions reserved by law or by the Company Bylaws to the exclusive competence of the Board of Directors as a body;
  - (ii) The following categories of transactions:
    - The purchase, sale or subscription of shareholdings in companies, when:
      - (1) The payment or –where this is not in the form of money – the trading value assigned to such transaction is more than €75 million; (2) the sale (or exchange) refers to investments recorded in the balance sheet with a value of over €50 million; (3) the transaction involves the acquisition or the loss of control, as per the terms of Art. 2359 of the Civil Code, in companies or entities of another kind or nature;
      - The purchase or sale on any account of businesses or business arms for a price or a value of over €75 million;
      - Any other investment transaction of any kind and on any account and in any manner (including the payment of capital contributions or the conversion of receivables into capital), taking on debt or making loans of any kind or issuing guarantees and in general any other deal the value of which is over € 75 million;
      - Any decision that the Company may make relating to the operations or decisions of the subsidiaries which may, in any way or on any account, result in a reduction of the stake held by the Company to below the threshold of control.

During the same meeting Mr Carlo De Benedetti was given the following mandate:

- a) To follow and manage, in conjunction with the appropriate corporate departments, the institutional relations of the Company and the Group with public and private entities, with the Government and the local authorities of the Republic of Italy and of other States, with other entities, institutions and associations, promoting in all these spheres the image, the values and the activities of the Company and taking part, where necessary and when requested to do so, in the meetings of the Board of Directors, the executive committees and other bodies and committees in general;
- b) To advise, when requested to do so, the administrative bodies of the Company and/or of the Group in the research and development or new activities, with particular regard to the evolution and prospects of the general economic and social scenarios involved, and more in general in anything else that the administration of the Company may consider useful at any time for improving management and developing the company affairs in a more profitable way.

The Board of Directors Meeting held on April 30 2009 had also given Mr Rodolfo De Benedetti, in his position as General Manager, the powers of ordinary administration to be exercised with his sole signature.

On September 7 2001, the Board of Directors of the Company had also assigned to the General Manager, Mr Alberto Piaser, with his single signature, powers of ordinary administration as from October 1 2001 for the action included in his mandate.

The Board of Directors Meeting held on April 30 2009 had also given Mr Rodolfo De Benedetti, in his position as General Manager, the powers of ordinary administration to be exercised with his sole signature.

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## **2) Composition of the Board of Directors (as per Art. 123-bis, paragraph 2, letter d) of the T.U.F.)**

The Board consists of fourteen Directors, one of whom has executive status (the Chief Executive Officer), while thirteen are non-executive.

In consideration of their number and their authority, the non-executive Directors provide a guarantee that their judgment shall have significant weight in the resolutions adopted by the Board; they each bring their own individual expertise to Board debates and contribute to the adoption of decisions in the interest of the Company.

The “Independent Directors” make up half of the Board.

The composition of the Board of Directors of the issuer is therefore appropriate to guarantee sufficient conditions of operational independence, aimed at maximizing the economic and financial objectives of the same issuer.

It should be remembered that the mandate of the Board of Directors currently in office will terminate with the approval of the Financial Statements for the year ended December 31 2010.

The Board can set up from within its number committees with the function of consulting and making proposals, determining the scope of their activity and their powers.

The following charts show the composition of the Board of Directors and that of the Committees set up by the Board: the Compensation Committee, the Internal Control Committee, the Committee for Related Party Transactions and the Appointments Committee.

Name	Position	In office since	List	Exec.	Non exec.	Indep. Code of Conduct	Indep. TUF	% BofD	Other positions
De Benedetti Carlo	H.C. Director	29.4.2008	M		X			100%	4
Micossi Stefano	Chairman	30.4.2009	M		X			100%	1
De Benedetti Rodolfo	CEO	29.4.2008	M	X				100%	6
Bracchi Giampio	Director	29.4.2008	M		X	X	X	86%	5
Debenedetti Franco	Director	29.4.2008	M		X			71%	4
Ferrero Pierluigi	Director	29.4.2008	M		X			100%	2
Germano Giovanni	Director	29.4.2008	M		X	X	X	100%	1
Girard Franco	Director	29.4.2008	M		X			71%	2
Mancinelli Paolo	Director	29.4.2008	M		X	X	X	57%	--
Paravicini Crespi Luca	Director	29.4.2008	M		X	X	X	86%	6
Recchi Claudio	Director	29.4.2008	M		X	X	X	71%	5
Segre Massimo	Director	29.4.2008	M		X			100%	4
Tabellini Guido	Director	29.4.2008	M		X	X	X	43%	--
Zanni Umberto	Director	29.4.2008	M		X	X	X	--	--

Number of Board of Directors Meetings: 7

Key:

List: M/m: according to whether the Director was elected from the majority list or from a minority list.

Independent (Civil Code and TUF): indicates whether a Director can be qualified as independent on the basis of the criteria established by the Code of Conduct (March 2006 edition) and by Art. 148 parag. 3 of the TUF.

% CDA: shows the Director's attendance, in percentage terms, at the Board Meetings held during the year.

Other positions: shows the total number of positions held in other listed companies, financial companies, banks, insurance companies or other companies of a significant size.

Name	Compensation Committee	% of attendance at C.C.	Internal Control Committee (a)	% of attendance at I.C.C.	Appointments Committee (b)	% of Attendance at A.C.
Bracchi Giampio			X	100%		
De Benedetti Carlo	X	100%				
Germano Giovanni	X	100%	X	100%		
Girard Franco					X	--
Mancinelli Paolo					X	--
Paravicini Crespi Luca			X	100%		
Tabellini Guido	X	50%			X	--
Zanni Umberto	X	--				
Number of committee meetings	2		7		--	

Key:

% CC: shows the Director's attendance in percentage terms at the meetings of the Compensation Committee held during the year.

% ICC: shows the Director's attendance in percentage terms at the meetings of the Internal Control Committee held during the year.

(a) The members of the Committee for Related Party Transactions are the same as those of the Internal Control Committee.

(b) The Appointments Committee did not meet in 2010.

The positions of Director or Statutory Auditor held by Directors in other listed companies, financial companies, banks, insurance companies or in other non-listed but which are of a significant size, are shown in Attachment A.

In accordance with the terms of the Code of Conduct, on April 29 2008 the Board of Directors appointed as *Lead Independent Director* Prof. Guido Tabellini to whom all the non-executive directors can refer (especially the independent ones) to enable them to make a better contribution to the activity and the running of the Board.

The *Lead Independent Director* collaborates with the Chairman to guarantee that the Directors receive full information flows on a timely basis. Among other things the *Lead Independent Director*, either independently or at the request of other directors, also has the right to call a meeting of just the independent directors to discuss topics considered of interest to the running of the Board of Directors or the management of the Company.

At the proposal of the Chief Executive Officer and in agreement with the Chairman, subject to hearing the opinion of the Board of Statutory Auditors, on April 27 2007 the Board of Directors appointed Mr Alberto Piaser as the officer in charge of the preparation of the Company's financial statements. Mr Piaser has the requisites required by current legislation and has adequate experience on the subject of accounting and finance.

It should be noted that Mr Alberto Piaser, General Manager, takes part in meetings of the Board of Directors.

In the last few years the Chairman of the Board of Directors, in agreement with the Chief Executive Officer, initiated a process aimed at giving the Board of Directors more involvement so that it can as a body carry out in full its role of directing the strategy and approach of the Company management and its members can obtain all the elements useful for giving their personal contribution to reaching the Company objectives. To this end the Chief Executive Officers of the main companies heading their respective business sectors were present at the meetings to illustrate the objectives they have been pursuing, the strategies and the managerial approaches adopted by each of them.

Moreover at the last Board of Directors Meeting held in October a Board meeting was planned for the beginning of 2011 to examine and discuss in a structured way the objectives and strategies that CIR will be following in the next few years at Group level.

In accordance with the terms of the Bylaws (Articles 12, 13 and 20), the Board shall meet when convened by the Chairman or whoever is taking his place, as a rule every three months and any time that the interests of the Company make it necessary, including at the request of two Directors, or when called by any member of the Board of Statutory Auditors, subject to their notifying the Chairman of the Board of Directors.

The Meeting is called by registered letter, telegram, fax or e-mail which must be received at least five days before the date fixed for the meeting or, in cases of urgency, at least the day before.

The meetings of the Board and its resolutions are valid, even when the meeting has not been formally convened, when the majority of the Directors in office and the Statutory Auditors are present even by telephone - or video-conference call, all those who have a right to attend have been notified in advance of the meeting and the participants are sufficiently informed on the topics to be dealt with.

The Meetings of the Board of Directors are chaired by the Chairman or, should the Chairman be absent, by one of the Deputy Chairmen or, should there be no Deputy Chairman, by a Director designated by the Board.

In order for the Board resolutions to be valid and binding the majority of the Directors in office must be present. Resolutions are taken with an absolute majority of the votes of those present, and if the votes for and against are equal then the Chairman or whoever is taking his place casts his vote which shall be decisive.

Board resolutions are set out in writing in the minutes which are signed by the person chairing the meeting and by the Secretary.

Meetings of the Board of Directors can be held by video - or telephone-conference call or by any other means of telecommunication on the condition that all the participants can be identified, that they are able to follow the discussion and intervene in real time on the items being treated and that they are in a position to receive, transmit and view documents.

Once these conditions have been verified, the Board is considered as being held in the place where the Chairman is actually located.

When the minutes are not drawn up by a Notary, they are prepared by the Secretary and signed by the Chairman and the Secretary without delay.

The Directors must report back to the Board of Directors and to the Board of Statutory Auditors on activities carried out and on anything else required by law at regular intervals at least once every three months when Board Meetings are held or whenever particular timing needs make it desirable. This report shall be made directly, in writing, or verbally and/or by telephone.

In practice the recommendations given in the Code of Conduct are being applied since:

- the Chairman convenes meetings of the Board of Directors and makes sure that all the members of the Board receive, at least three days before the meeting (except in cases of urgency), all the documentation and information necessary to enable them to express their opinion in a knowledgeable way on the topics submitted for examination and approval;
- the Chairman coordinates the activity of the Board of Directors and directs the proceedings at its meetings;
- the Board of Directors provides sufficient information on the powers assigned to the Members of the Board of Directors.

During 2010 the Board of Directors met seven times. On average, the meetings last for approximately two hours. For the year 2010 eight meetings have been scheduled.

On the subject of passing information to the Board, in accordance with what is set out in the Code of Conduct, the Chief Executive Officer reports back regularly (at least every three months) to the Board and at the same time to the Board of Statutory Auditors on the action taken in the exercise of the powers assigned to him.

The Chief Executive Officer also provides sufficient information to the Board of Directors and the Board of Statutory Auditors (at least once every three months) on any unusual transactions or any transactions with related parties.

### **3) Independent Directors**

The Code of Conduct stipulates that there be a sufficient number of “Independent Directors”. Currently seven non-executive Directors of the Company have demonstrated that they are qualified to be “Independent Directors”. On the basis of the criteria stipulated in paragraph 3.C.1 of the Code of Conduct, Directors may be qualified as “Independent Directors” provided that:

- a) they do not either directly, indirectly or on behalf of third parties control the Issuer, they are not able to exert a significant influence on it, and they have not entered into a shareholder pact through which one or more persons may exercise control or a significant influence on the Issuer;
- b) they do not hold or have not held in the previous three years an important position in the Issuer, in one of its subsidiaries of strategic importance or in a company subject to the joint control of the Issuer, or in a company or an entity which, with others through a shareholder agreement, controls the Issuer or is able to exercise considerable influence on the same;
- c) they do not have or have not had in the previous year a significant commercial, financial or professional relationship either directly or indirectly (for example through subsidiaries or companies in which they have a significant role either as partner of a professional firm or of a consulting company) with:
  - the Issuer, one of its subsidiaries or with any persons of significant status in the same;
  - with a person or entity who even with others through a shareholder agreement, controls the issuer or – where companies or entities are involved – with any persons who have a significant status in them;or that they are not, or have not been in the previous three years, employees of one of the above entities;
- d) they do not receive, or have not received in the previous three financial years, from the Issuer or from one of its subsidiaries or parent companies any significant remuneration in addition to their fixed fee as non-executive director of the Issuer, including participation in performance-related incentive plans even involving shares;
- e) they have not been directors of the Issuer for more than nine of the last twelve years;
- f) they do not hold the position of executive director in another company in which an executive company of the issuer holds the position of director;

- g) they are not shareholders or directors of companies or of an entity belonging to the network of the company awarded an audit mandate by the Issuer;
- h) they are not close family members of a person who is in one of the situations specified in the previous points.

Should any of the situations listed in the Code of Conduct exist as conditions for the non-independence of non-executive Directors, the Board of Directors shall examine on a case-by-case basis whether the individual has the necessary requisites to be qualified as an Independent Director.

On the basis of paragraph 4, Art. 147 ter of the TUF, at least one member of the Board of Directors, or two if the Board of Directors has more than seven members, must have the requisites of independence established for statutory auditors and therefore in accordance with the terms of paragraph 3, art. 148 of the TUF, the following individuals cannot be considered as independent:

- a) the spouse, relations and relatives up to the fourth degree of kinship of the Directors of the Company, the directors, the spouse, relations and relatives up to the fourth degree of directors of the companies controlled by the former and of the companies which control it and those subject to joint control;
- b) those who are linked to the company or to the subsidiaries of the company or to companies which control it or to companies subject to joint control or those linked to the directors of the company and to the individuals mentioned in the previous point through a working relationship, be it of regular employment or of a freelance nature, or by any economic or professional relationship which could compromise his or her independence.

The Board of Directors Meeting that was held at the end of the Shareholders' Meeting of April 30 2010 checked the existence of the requisites of independence set out in the Code. Furthermore, and in waiver to the terms set out in the Code of Conduct for Listed Companies (See Principle 3.C.1, letter e), gave a positive opinion on the independence of the following Directors: Messrs Giovanni Germano, Paolo Mancinelli, Luca Paravicini Crespi, Claudio Recchi and Umberto Zanni, in spite of the fact that they have been Directors of the Company for more than nine of the last twelve years, given that they have always demonstrated full independence of judgement and have appreciated the work of management freely. During financial year 2010 the Independent Directors met – without the other Directors – on March 11 2010 to assess the quality of management and the transparency of the information given to the Board of Directors and to make some proposals thereon.

#### **4) Treatment of company information**

On October 30 2002 the Board of Directors approved the internal procedure put forward by the Chief Executive Officer for the treatment of confidential

information, with the definition of the roles and responsibilities of those responsible for managing such information and deciding how and when to release it to public knowledge following the procedures defined by the rules regulating the disclosure of price-sensitive information, as follows:

- Press releases pertaining to the so-called periodic information (financial statements, semi-annual reports, interim reports etc.) are approved by the Board of Directors;
- Press releases pertaining to extraordinary transactions (mergers, acquisitions, capital increases etc.) are approved by the Board of Directors if the said transactions require approval by that same body;
- In all other cases in which no resolution is required by an administrative body, the management of the disclosure of information is the responsibility of the Chief Executive Officer in agreement with the Chairman who will be responsible for evaluating the “significance” of the facts to be disclosed;
- Publication of the press releases is assigned to the Group Communication Department for release to the press, and to the Central Finance Director in charge of Investor Relations for notification to institutional investors;
- The Directors, the Statutory Auditors, the head of “Investor Relations”, the head of external relations and all other employees involved must make sure that all price-sensitive documents and information obtained during the course of their duties remain confidential (unless they have already been published in the prescribed forms) and must respect the required procedure for releasing such documents and information outside the company;
- It is absolutely forbidden for anyone to give interviews to press organizations or to make statements of any kind containing information on significant facts which could be classified as price-sensitive unless these have already been the subject of press releases or documents already released to the public;
- The Chief Executive Officer keeps a watch to ensure that all those involved apply the terms of current regulations on the subject of company information and that they comply with the requirements contained in the procedure. He will also see that they are informed on the content of laws and procedure.

In addition, in compliance with the transposition into Italian law of the European Directive on market abuse, the obligations on the subject of insider dealing have been reformulated, giving a more precise definition of the concept of “privileged information”, of the characteristics necessary to be considered as “significant persons”, the new terms and procedures for significant persons to notify the market of privileged information and the institution of a register of all those people who

have access to privileged information. On March 14 2006 the Board of Directors was able to comply with the new legislation and on April 1 2006 the new Code of Conduct on the subject of Internal Dealing took effect as did the Register of Persons who have access to privileged information.

#### **5) The institution and the functioning of the internal committees of the Board of Directors (as per Art. 123-bis, paragraph 2, letter d) T.U.F.)**

In accordance with the terms of the Code of Conduct, on May 4 2000 the Board of Directors set up the Internal Control Committee and the Compensation Committee.

On April 30 2009 the Board also set up an Appointments Committee, the members of which are Mr Franco Girard and Independent Directors Paolo Mancinelli and Guido Tabellini.

The Appointments Committee has the following functions:

- It puts forward to the Board of Directors candidates for the position of Director whenever it is necessary to replace an independent Director as per the terms of Art. 2386, first paragraph of the Civil Code;
- It puts forward candidates for the position of independent Director to submit to the Shareholders' Meeting, taking into account any indications received by the Shareholders;
- It gives the Board of Directors its opinion on the size and composition of the same, and possibly also on the professional profiles whose presence on the Board would be appropriate.

On October 28 2010 the Board of Directors appointed the Committee for Related Party Transactions, establishing that its members would be the same persons as those on the Internal Control Committee.

#### **6) Appointment of Directors (as per Art. 123-bis, paragraph 1, letter l) T.U.F.)**

Article 8 of the Company Bylaws regarding the Administration of the Company states: "The Company is administered by a Board of Directors comprising from five to twenty-one members, who need not necessarily be shareholders, whose mandate lasts for the period determined by the Shareholders Meeting, but which in any case shall not be longer than three financial years, and who can be re-elected.

The Shareholders' Meeting shall decide on the number of Board Members and this number shall remain the same until a resolution changing the number is adopted.

Minority Shareholders have the right to elect one member of the Board of Directors.

The Board of Directors is elected by the Shareholders' Meeting on the basis of lists presented by the Shareholders which list the candidates in numerical order.

The lists, signed by the Shareholders who have presented them, must be filed following the terms and procedures set out in the appropriate regulations on the subject.

Only Shareholders who alone or together with other Shareholders represent at least a fortieth part of the share capital or any different percentage that may be decided upon in accordance with the law or regulations, can present lists of candidates. They must be able to prove that they own the number of shares required according to the terms and conditions set out in the appropriate regulations on the subject. Shareholders who alone or together with other Shareholders represent a total of less than 20% of the share capital can present lists containing no more than three candidates.

Any lists presented that do not comply with these instructions shall be considered as not having been presented.

No Shareholder can present or contribute to the presentation of more than one list, even indirectly through a third party or a fiduciary company. Shareholders subject to the same control in accordance with Art. 93 of the Consolidation Act on the subject of Financial Intermediaries or those taking part in the same Shareholder pact for voting purposes may present or contribute to the presentation of just one list.

Each Shareholder can vote for just one list.

Each candidate can stand only in one list otherwise he or she cannot be elected.

Together with the presentation of the list, and within the same time limit as the latter, declarations shall be presented in which the candidates accept their candidature and certify under their own responsibility that there are no reasons why they should not be elected neither is there any incompatibility prescribed by law and by current regulations. They also declare that they possess the requisites stipulated in the law and in current regulations for Members of Boards of Directors. A curriculum vitae must also be submitted with the personal and professional details of the candidate and details of any other positions of director or auditor held in other companies and whether he or her has the necessary requisites to be an independent Director in accordance with the terms of the law and regulations.

Any incompleteness or irregularity regarding individual candidates will lead to the elimination of their names from the list that will be put to the vote.

In order to be able to appoint the candidates indicated, the lists presented and put to the vote must obtain a percentage of the votes that is at least half of the percentage required by the terms of this article for presenting the same lists. If this is not the case, any such list will not be taken into consideration.

For electing the members of the Board of Directors the following procedure will be adhered to:

a) From the list which obtains most votes at the Shareholders' Meeting all of the board members shall be drawn except for one and this shall be on the basis of the order in which the names appear on the list;

b) The other director will be the first name on the list which obtains the second most votes and which is not linked in any way, not even indirectly, to the Shareholders who presented and voted for the first list which received the most votes.

All the Directors elected must possess the requisites of integrity and professionalism required by current regulations. If they do not have these their appointment shall lapse.

In the event that only one list is presented or admitted to the voting, all the Directors shall be drawn from that list.

In the event that no lists are presented or that fewer Directors are elected than the number determined by the Shareholders Meeting, then the same Shareholders must be reconvened in order to appoint the full Board of Directors.

When one or more Directors needs to be replaced due to a resignation or some other reason, the procedure as per Art. 2386 of the Civil Code will be followed, ensuring that all the requisites applicable are complied with.”

As indicated in point 5) above, on April 30 2009 the Board of Directors currently in office set up the Appointments Committee comprising three Directors, two of whom are independent, with the duties and functions described therein.

#### **7) Remuneration of Directors (As per Art. 123-bis, paragraph 1, letter i) and paragraph 2, letter d) T.U.F.)**

The remuneration of Directors holding special positions is, pursuant to the Bylaws, established by the Board of Directors, at the proposal of the Compensation Committee after obtaining the opinion of the Statutory Auditors.

The Board of Directors did not see fit to change the composition of the Compensation Committee established on April 29 2008 and therefore the Honorary Chairman continues to be on the Committee in view of his broad-based competence and his deep knowledge of the Company.

The current members of the Compensation Committee are Mr Carlo De Benedetti (non-executive Director), and Independent Directors Messrs Guido Tabellini, Giovanni Germano and Umberto Zanni.

The Compensation Committee based its work on the guidelines set forth in the Code of Conduct for Listed Companies and met twice during 2010. Minutes were taken of the Committee meetings as is standard practice.

The above Committee has the task of putting forward to the Board, in the absence of those directly concerned, proposals concerning:

- The remuneration of the Chief Executive Officer and Directors holding special positions, including remuneration in stock options and the payment of other share-based incentives;
- General and individual salary packages for top level managers of the Company;
- The establishment of criteria for remunerating the management of the Company, at the indication of the Executive Directors;
- The content of the stock option plans implemented by the company, which it draws up, putting forward its proposals for identifying the beneficiaries and deciding how many options will be assigned to each of them.

The compensation of each Director is shown in the chart “Compensation paid to Directors, Statutory Auditors, and General Managers” annexed to the explanatory Notes to the Financial Statements for the year.

The Compensation Committee is not expected to administer and monitor the functioning of these incentive plans.

It should be noted that there is no compensation for Directors in the event of resignation, cancellation without just cause, or termination of the relationship following a successful takeover bid.

### ***CIR compensation policy***

In March 2010 the Corporate Governance Committee of Borsa Italiana approved the new text of Article 7 of the Code of Conduct of 2006 on the subject of the compensation of Directors and Executives with strategic responsibilities..

The Compensation Committee and the Board of Directors of CIR will make sure that the compensation system is brought into line with the new regulatory requirements as from financial year 2011.

Compensation policies aim to guarantee competitiveness in the labour market in line with the objectives of developing and rewarding the loyalty of human resources, as well as using different compensation tools according to individual professionalism and competence.

Taking into account the fact that CIR is a holding company of equity investments, which operates both in mature sectors with relatively constant cash flows, and in sectors with a high potential for growth and in clearly different spheres (publishing, energy, automotive components, healthcare), it is felt to be a particularly complex task to identify specific performance parameters. Consequently the compensation policy for the Chief Executive Officer and the Executives of CIR was determined exclusively based on part of the compensation in cash and a part in shares of the Company.

The Company keeps its compensation in line with market benchmarks, applying rewarding criteria when situations of particular merit arise.

The Compensation Committee decides upon the compensation and share-based payment plans for the Chief Executive Officer and General Manager and puts forward a compensation proposal for this position. The Board of Directors approves the share-based payment plan and the salary.

The Shareholders’ Meeting decides upon the compensation of non-executive Directors, which is set according to the commitment required of each of them; the Board of Directors determines the compensation for the position of Chairman and the fees for directors holding special positions.

The Committee determines the share-based payment plans for employees (preparing the appropriate Regulations for the same), identifying the beneficiaries and the number of options to be assigned to each of them, and in the same way, at the indication of the Chief Executive, determines the criteria for the compensation of the management of the Company.

For the year 2011 the Shareholders' Meeting will be asked to approve a proposal for the assignation of Stock Grant Plans (respecting the terms and conditions described in the Information Document, prepared in compliance with Consob Regulation no. 11971/99) in accordance with principles which substantially reflect the provisions of the new Article 7 of the Code of Conduct for Listed Companies, particularly in relation to the following:

- An average vesting period of 3 years
- Vesting of part of the shares assigned linked to the achievement of certain performances (trend of the stock)
- Minimum holding for an average of 2 years in addition to the 3 years of vesting for a percentage of the shares assigned.

The Information Document can be consulted on the Company's website in the section "Governance".

#### **8) Internal Control System (As per Art. 123-bis, paragraph 2, letters b and d T.U.F.)**

The internal control system is all the rules, procedures and organizational structures that, by correctly identifying, measuring, managing and monitoring the main risks, ensure that the company is administered in a healthy and correct manner that is consistent with the objectives established.

The internal control system of the Group contributes to guaranteeing that corporate assets are safeguarded, that corporate operations are carried out efficiently and effectively, that financial information is reliable, and that laws and regulations are complied with.

Responsibility for internal control lies with the Board of Directors. To this end, the Board of Directors avails itself of the assistance of the Internal Control Committee, the executive director responsible for superintending the functioning of the internal control system and one or more internal control officers.

On the basis of the resolution adopted by the Board of Directors on March 20 2001, the Chief Executive Officer is the executive director responsible for ensuring that the internal control system works effectively and that it is adequate. He does this partly by defining procedures that will guarantee sound and efficient management and also by identifying, pre-empting and managing, as far as possible, any financial and operational risk and any fraud against the Company, availing himself of the assistance of the Internal Control Committee which operates according to the guidelines set out in the Code of Conduct with the support of the internal control officer, Mr Giuseppe Gianoglio, appointed by the Board of Directors on September 6 2004.

The Board of Directors with their resolution adopted on May 4 2000 set up the Internal Control Committee which was given the function of preparing proposals and acting in a consulting capacity and which acts along the lines set out by the Code of Conduct.

The Chairman of the Board of Statutory Auditors or another Statutory Auditor designated by the said Chairman takes part in the work of the Committee.

In particular the Internal Control Committee:

- a) assists the Board of Directors in carrying out its duties regarding internal control;
- b) assesses the plan of action prepared by the internal control officers and receives the periodic reports from the same;
- c) together with those responsible for the administration of the company and the auditors, the above Committee assesses whether the accounting principles are being used correctly and, for groups, assesses their uniformity for the purpose of drawing up consolidated financial statements;
- d) evaluates the plan of action for carrying out the audit, the results of the said audit as set forth in the auditor's report and in their letter containing recommendations;
- e) reports back to the Board at least once every six months when the financial statements and the semi-annual report are approved, regarding the action carried out and the adequacy of the system of internal control;
- f) carries out any further duties that may be assigned to it by the Board of Directors, particularly in regard to the relationship with the external auditors;
- g) accesses the information and company functions necessary for carrying out their duties and can also use external consultants when necessary.

The Company provides the Committee with sufficient financial resources for it to carry out its duties.

The Committee currently in office is formed exclusively of Independent Directors with adequate experience in financial matters.

The members of the Internal Control Committee are Messrs Giampio Bracchi, Giovanni Germano and Luca Paravicini Crespi.

During 2010 the Committee held seven meetings of which the minutes were duly taken, at which the Internal Control Officer was present and which reported back on its activities.

As already mentioned, in compliance with the Company Bylaws, on April 27 2007 the Board of Directors appointed Mr Alberto Piaser (General Manager of the Company) as the Executive responsible for the preparation of the financial statements of the Company

## **Risk management and internal control system in relation to the financial disclosure process**

### Premise

CIR is a holding of industrial investments which has the prime objective of holding controlling shareholdings as long-term investments and which acts as a point of reference for its subsidiaries, contributing to their development and to a rapid decision making process.

The risk management and internal control system in relation to the financial disclosure process of CIR is, in this context, focused on reporting on a consolidated basis with the aim of ensuring that the financial information of the companies of the Group is available rapidly and is accurate and complete.

### Main characteristics of the existing risk management and internal control system in relation to the process of financial disclosure

The existing risk management and internal control system in relation to the process of financial disclosure of CIR is organized on two levels which have different features, a different structure and operate in different ways in light of the different levels of complexity and the different roles and functions involved. Specifically, the financial information process consists of:

- individual financial disclosure;
- consolidated financial disclosure.

### Individual financial disclosure

As well as its role as holder of equity investments, CIR engages in short-medium term investment activity, both directly and through its wholly owned subsidiaries, with the aim of optimizing the investment of liquidity, and also hedges the interest rate and exchange rate risk generated by a bond and by foreign currency transactions.

This activity involves a number of deals needing recognition in the accounts which is not particularly high but the unit amount of which may be quite significant.

The procedures involved in the accounting and administrative system and in the related internal control system take these characteristics into account and therefore the risk management system and internal control of information on an individual basis is based on controls mainly of an analytical type rather than on automatic controls.

In particular every economic or financial transaction is recognized fully and accurately in the accounting and administrative system on a timely basis. The Company has set up the necessary procedures and controls to guarantee that the

information flow to the accounting system is correct and rapid. For financial transactions that constitute the Company's typical business, the Company has equipped itself with computer systems suitably structured to ensure that the information is reliable and updated.

At regular intervals controls are carried out with third parties to reconcile accounting positions and to check that estimates are reasonable. In fact verification with financial counterparties is one of the normal procedures for checking figures. In addition, for financial risk management purposes, CIR has adopted operating procedures aimed at monitoring and controlling financial activity which establish, among other things, the level of risk, the type of financial investment, stop loss policies and a value at risk (VAR) analysis of the portfolio. This risk management system, adopted by CIR and its 100% owned subsidiaries, is part of the internal control system for financial information.

#### Consolidated financial disclosure

As highlighted above, the accuracy, completeness and timeliness of information needed for the preparation of the consolidated financial statements of CIR depends on the degree of reliability of the instruments it uses to receive financial information from its subsidiaries.

This information flow through the accounting and administration system for the consolidated financial statements of CIR is guaranteed by a structured procedure which operates through a high-professional profile program specializing in the management of financial information and statistics of groups of companies. This instrument has systems of controls that ensure the consistency of the data managed both in relation to the information of the individual company and in relation to historical data. It also guarantees the traceability of information and is therefore useful for control activities. Homogeneity of financial data is achieved by the fact that the evaluation criteria and main accounting principles used are the same for the whole Group. Awareness of these principles and criteria is guaranteed by the existence of a Group accounting manual and by the daily contact between the competent departments of the various companies.

In this context the system of control of financial information actually put into practice, aimed at mitigating the risks involved in financial information, is based on the organization of the Group into sub-holdings. Control is therefore partly delegated to the sub-holdings who in turn guarantee uniformity in the treatment of information by their operating subsidiaries at all levels.

Specifically, the sub-holdings that depend directly on the Parent company and their respective subsidiaries are equipped with an internal control system and a risk management system aimed at ensuring that information flows into the parent company of the group according to the established timing and procedures. Each company has set up a model that enables information flows generated by their

operating processes to be traced and checked and be subjected to first and second level checks. Moreover each operating Group has set up its own third level checking body which acts both directly and also on the basis of programs shared with the Internal Control Committee, the Board of Statutory Auditors and the Surveillance Body as per D.Lgs. 231/2001.

#### Roles and functions involved

The operating activity and the execution of first and second level checks are carried out by a highly professional structure, wholly devoted to this, with the separation of roles between those who actually enter into the deals and those who manage the processing thereof.

The operational management of the whole system is the responsibility of the Internal Auditing function, which is responsible for checking the design and effective operations of the controls and for the periodic check that the management instruments and procedures that CIR has put in place are being applied correctly. The results of the checks are discussed with the management of the Company, with the Internal Control Committee and in relation to the surveillance activities set out in the organization model as per D.Lgs. 231/2001, with the Surveillance Body.

#### Further checks

The reliability of the financial information of the companies of the Group is not guaranteed only by the above-mentioned procedures and information systems, as it is also ensured by the monitoring activities carried out by the Parent Company through discussion, analysis and the ongoing revision of budgeted, pre-closing and actual numbers. These discussions are carried out at the various company levels either on a weekly and/or a monthly basis, with the Parent Company. Spot checks even in detail of any variance in the actual or pre-actual figures compared to the figures forecast and a critical assessment of operating events which may involve differences compared to expectations make it possible to know immediately how the company is performing and what its results are expected to be. This means that any corrective measures can be put in place rapidly where necessary. The analyses mentioned above are supported by an appropriate data management system, strictly correlated and integrated with the accounting system of the Company.

### **9) Interests of the Directors and transactions with related parties**

On October 28 2010 the Company adopted the procedure for transactions with related parties contained in Consob Regulation, issued with Resolution no. 17221 of March 12 2010 as it was subsequently amended and supplemented by Resolution no. 17389 of June 23 2010. This procedure can be consulted on the website [www.cirgroup.it](http://www.cirgroup.it) in the section "Governance.

The procedure has the aim of establishing principles of conduct that the Company is required to adopt to guarantee that related-party transactions are managed correctly and to this end:

1. It determines the criteria and the procedures for the identification of the Company's related parties
2. It dictates the principles
3. It regulates the procedures for entering into related party transactions
4. It establishes the procedures for fulfilling the related disclosure obligations

The Board of Directors has also appointed a Committee for Related Party Transactions, establishing that its members will be the same as those of the Internal Control Committee, while the system of substitutes set out in the procedure applies. Mr Giampio Bracchi has been identified as the coordinator of the Committee for Related Party Transactions.

#### **10) Statutory Auditors (as per Art. 123-bis, paragraph 2, letter d) T.U.F.)**

Article 19 of the Company Bylaws regarding the Board of Statutory Auditors stipulates that: "The Board of Statutory Auditors consists of three Statutory Auditors and three Alternate Auditors whose term of office lasts for three financial years and who can be reappointed. Minority Shareholders can elect one Statutory Auditor and one Alternate Auditor.

The Board of Statutory Auditors is appointed by the Shareholders' Meeting on the basis of lists of candidates presented by the Shareholders consisting of two sections: one for the candidates for the position of Statutory Auditor and the other for the candidates for the position of Alternate Auditor and the candidates in each section are listed in numerical order.

The lists of candidates, signed by the Shareholders who are presenting them, must be filed within the time limits and following the procedures laid down by rules on the subject.

Only Shareholders who, either alone or with others, represent at least 2% of the share capital have the right to present lists and they are required to provide proof of ownership of the required number of shares within the time limits and following the procedures laid down by law.

Lists presented which do not comply with the above rules will be considered as not having been presented.

No Shareholder can present or contribute to the presentation of more than one list of candidates even through an intermediary or through a fiduciary company. Shareholders who are subject to joint control as per the terms of Art.93 of the Consolidation Act on the subject of financial intermediation or those who take part in the same shareholder agreement for voting purposes can present or jointly present just one list. Each Shareholder can vote for just one list.

Candidates can be present on only one list otherwise they will be excluded from election.

No Shareholder, or Shareholders belonging to the same group, can present more than one list of candidates even through an intermediary or through a fiduciary

company, neither can they vote for different lists. Candidates can be present in only one list otherwise they will be excluded from election.

Candidates who already hold the position of Statutory Auditor for five other companies or organizations whose shares are listed on a regulated market included in the list as per articles 63 and 67 of the T.U.F. cannot be included in the list of candidates and neither can individuals who do not possess the necessary requisites of integrity, professionalism and independence laid down in the legislation on the subject or those who do not respect the maximum limit for the number of positions they can hold in accordance with the law or with regulations.

Within the above-mentioned time limit and together with each list, a declaration signed by each candidate must be submitted. This declaration should attest that the candidate, under his or her own responsibility, accepts his or her nomination and should certify that there are no reasons why he or she should be ineligible for the position or be otherwise incompatible and that the candidate possesses the necessary requisites laid down by law and by current regulations for members of Board of Statutory Auditors.

The lists must also be accompanied by a curriculum vitae with the personal and professional details of the candidate and details of any other positions of director or auditor held in other companies.

Any incompleteness or irregularity regarding individual candidates will lead to the elimination of their names from the list that will be put to the vote.

The election of the members of the Board of Statutory Auditors will take place as follows:

1. Two members and two alternate members will be drawn from the list which obtains most votes at the Shareholders' Meeting on the basis of the numerical order in which the names appear on the list;
2. The other member and the other alternate member will be drawn from the list which obtains the second most votes at the Shareholders' Meeting ("minority list") and who must not be connected even indirectly with the Shareholders who presented or voted for the list which obtained the most votes, again on the basis of the numerical order in which the names appear on the list;
3. If only one list is presented, all the Statutory Auditors and Alternate Auditors will be drawn from that list.

The candidate on the minority list who obtained most votes has the right to the position of Chairman of the Board of Statutory Auditors.

If only one list is presented, the candidate for the position of Statutory Auditor who is number one on that list has the right to the position of Chairman of the Board of Statutory Auditors.

Should an Auditor prove not to be possession of the qualifications required by law and by these Bylaws then his or her appointment will no longer be valid and will therefore lapse.

Should a Statutory Auditor need to be replaced, the individual taking his or her place will be selected from the same list of candidates as his or her predecessor."

Article 20 of the Company Bylaws states that the meetings of the Board of Statutory Auditors can also take place using telecommunications facilities provided that the following conditions are met with:

- a) That participants are able to view, receive or transmit all the necessary documentation;
- b) That they can take part in real time in the discussion respecting the methodology of their function (the *collegio* method).

The meetings are held in the place where the Chairman is or, in his absence, where the oldest Statutory Auditor in terms of age is located.

The Board of Statutory Auditors can, provided that the Chairman is notified, call a Shareholders' Meeting, a Board of Directors Meeting or an Executive Committee Meeting. The power to call a Board of Directors Meeting or an Executive Committee Meeting can be exercised individually by any member of the Board of Statutory Auditors; the right to call a Shareholders' Meeting must be exercised by at least two members of the Board of Statutory Auditors.

Furthermore the Statutory Auditors are selected from persons who can be qualified as independent following the same criteria as those applied to the Directors.

During 2010 the Board of Statutory Auditors checked that the above criteria were being complied with, ensuring that the results of this check were shown in this report.

The Board of Statutory Auditors currently in office will terminate its mandate with the approval of the Financial Statements as of December 31 2010 and is made up as follows:

Name	Position	In office since	List	Indep. Code of Conduct	% attendance at meetings of B. of S.A.	Other positions held
Manzonetto Pietro	Chairman	29.4.2008	M	X	100%	2
Nani Luigi	In office	29.4.2008	M	X	100%	1
Zingales Riccardo	In office	29.4.2008	M	X	100%	6
Macchiorlatti Vignat Luigi	Alternate	29.4.2008	M	X	--	3
Ponzellini Gianluca	Alternate	29.4.2008	M	X	--	4
Reboa Marco	Alternate	29.4.2008	M	X	--	6

Key:

*List:* "M/m" according to whether the Statutory Auditor was elected from the list voted for by the majority or from one voted by the minority.

*Indep:* shows that the Statutory Auditor is qualified as independent according to the criteria established by the Code of Conduct (March 2006 version).

*% attendance:* shows the attendance in percentage terms of the Statutory Auditor at the meetings of the Board of Statutory Auditors.

*Other positions:* shows the number of positions of director or statutory auditor held by the individual in other Italian listed companies. The full list of these positions is given in an attachment to this document (Attachment A).

During 2010 the Board of Statutory Auditors met 8 times.

## **11) Relations with Shareholders**

The Company has always endeavoured to establish and maintain an effective dialogue with its Shareholders and with the market, using various forms of communication including for example the following: presenting the results of the Company and the Group during Shareholders' Meetings using slides, meeting with financial analysts and institutional investors in Italy and abroad, informing the public by making press releases and presentations available on the website of the Company.

The Company also adheres to the principles of the Guide for Disclosing Information to the Market.

To this end the Chief Executive Officer appointed the Central Finance Director, Mr Michele Cavigioli (who replaced Mr Giuliano Cecchini, who resigned as from September 1 2010) to be in charge of the Investor Relations function, to manage the flow of information to Shareholders, financial analysts and institutional investors, in compliance with the rules established for the disclosure of the Company's information and documents.

## **12) Shareholders' Meetings (As per Art. 123-bis, paragraph 2, letter c) T.U.F.)**

It has always been the policy of the Company to use the Shareholders' Meeting as an opportunity to give the Shareholders information about the Company and the Group and their prospects for the future, while complying with the procedure concerning price-sensitive information.

All the Directors and Statutory Auditors endeavour to be present at Shareholders' Meetings as far as possible but particularly those Directors who can make a positive contribution to the debate in view of the positions that they hold.

The Shareholder' Meeting is called by means of the publication of a notice on the Company website and in the newspaper "la Repubblica" according to the terms and procedures contained in current regulations.

The Shareholders' Meeting can be convened in a place other than the offices of the Company, provided that it is in Italy.

Attendance and proxy rights are regulated by the regulations applicable.

The proxy form can be sent to the Company by Certified Electronic Mail to the email address indicated in the notice of meeting before the start of the proceedings of the Meeting.

It is the Chairman's duty to check that the proxies are in order and that those present have the right to take part in the Meeting. Each share gives the right to one vote. The Shareholders' Meeting, both in its ordinary and its extraordinary session, is constituted and adopts resolution in accordance with the provisions of the law.

The Shareholders' Meeting held on April 27 2001, in accordance with the terms of the Code of Conduct, approved a set of Regulations for conducting Shareholders' Meetings, which can be consulted on the internet website of the Company in the section "Governance".

The Board of Director makes available to the Shareholders a booklet containing the items on the Agenda of the Shareholders' Meeting in the time frame laid down by law. This booklet is also published on the Company's website in the section "Governance".

### **13) Code of Ethics**

On March 7 2003 the Board of Directors approved the CODE OF ETHICS OF THE CIR GROUP, with the aim of defining in a clear and transparent way the code of values underpinning the action of the Group in the pursuit of its objectives and establishing principles of conduct which are binding for directors, employees and other individuals who maintain relations with the Group.

The text of the CODE OF ETHICS can be consulted on the internet website of the Company in the section "Governance".

### **14) Institution of a Surveillance Body and application of the organizational and operational model provided for by D.Lgs. 231/2001 (as per Art. 123-bis, paragraph 2, letter a) T.U.F.)**

Legislative Decree no. 231/2001 containing the "Discipline regulating the administrative liability of legal entities, companies and associations without legal status, pursuant to Article 11 of Law no. 300 of September 29 2000" and subsequent amendments and additions introduced the criminal liability of entities for any fraudulent acts committed by people with a special functional relationship with the Company, where the alleged misdeed was carried out in the interest or to the advantage of the same Company; this liability was among other things subsequently extended by D.Lgs no. 61/2002 to cover corporate offences.

The decree provides that exemption for the company from such liability is possible provided that it can be demonstrated that the company had adopted and effectively put in place organizational models for the prevention of criminal offences and that it had given the task of monitoring the correct functioning of such models and making sure that they are fully updated to a controlling body equipped with independent powers to take the initiative and to carry out a control function.

To this end, after approving the Code of Ethics, the Board of Directors then set up the Surveillance Body on April 30 2003.

On October 26 2009 the Board of Directors appointed as members of the Body - as from January 1 2010 – external legal consultants Attorneys Giuseppe Bianchi and Andrea Gottardo and the Director of Internal Auditing of the Group, Mr Giuseppe Gianoglio.

During 2010 the Surveillance Body met five times and minutes were taken in line with standard practice.

The Surveillance Body of CIR S.p.A. monitored the functioning and observance of the Organization, Management and Control Model adopted by the Company, in accordance with the program approved by the Board of Directors Meeting held on March 11 2010.

On September 5 2003 the Board of Directors then approved the “*Organizational Model*” to which a new version of the Code of Conduct on the subject of Internal Dealing and Keeping the Register of Persons who have access to Privileged Information was added in 2006. These were subsequently updated after new crimes were included in the regulations under D.Lgs. 231/2001.

#### **15) Firm of Auditors**

The Shareholders’ Meeting held on April 29 2008 awarded a mandate to the company Deloitte & Touche S.p.A. to audit the annual financial statements and the consolidated financial statements and carry out the check that the company accounts are being held correctly for financial years 2008-2016.

#### **16) Management and coordination activity**

The Company is subject to management and coordination by its controlling company COFIDE S.p.A., as per the terms of Art. 2497 and following articles of the Civil Code.

**List of positions held by the Directors of CIR S.p.A. in other companies listed on regulated markets, in financial companies, insurance companies, banks and also in non-listed companies of a certain importance (at December 31 2010).**

De Benedetti Carlo	Honorary Chairman & Director of Cofide S.p.A.* Chairman of Gruppo Editoriale L'Espresso S.p.A.* Honorary Chairman of Sogefi S.p.A.* Member of the Supervisory Board of Compagnie Financière Edmond de Rothschild Banque
Micossi Stefano	Director and Member of the Internal Control Committee of Banca Nazionale del Lavoro S.p.A.
De Benedetti Rodolfo	Chief Executive of Cofide S.p.A. * Director of Gruppo Editoriale L'Espresso S.p.A.* Chairman of Sogefi S.p.A. * Chairman of Sorgenia S.p.A. * Director of Banque Syz S.A. Director of Allianz S.p.A.
Bracchi Giampio	Chairman of R.D.B. S.p.A. Chairman of IntesaSanPaolo Private Banking S.p.A. Director of Amplifon S.p.A. Director of Banca del Sempione S.A. Chairman of Perennius Capital Partners SGR
Debenedetti Franco	Director of Cofide S.p.A. * Director of Piaggio & C. S.p.A. Director of Banca Popolare di Milano Chairman of China Milan Equity Exchange
Ferrero Pierluigi	Director of Cofide S.p.A. * Chairman of Ktesios S.p.A. *
Germano Giovanni	Director of Sogefi S.p.A. *
Girard Franco	Director of Cofide S.p.A. * Chairman of Management & Capitali S.p.A.
Mancinelli Paolo	--

Paravicini Crespi Luca	Director of Gruppo Editoriale L'Espresso S.p.A. * Director of Piaggio & C. S.p.A. Director of Consilium SGR S.p.A. Director of Education.it S.p.A. Director of Scala Group S.p.A. Director of Simplicissimus Book Farm S.r.l.
Recchi Claudio	Chairman and Chief Executive of Recchi Ingegneria e Partecipazioni S.p.A. Director of Prelios S.p.A. Director of Aon Italia S.p.A. Director of Albertini Syz & C. S.p.A. Chairman of Proger S.p.A.
Segre Massimo	Director of Cofide S.p.A. * Director of Borsa Italiana S.p.A. Director of Management & Capitali S.p.A. Deputy Chairman and Chief Executive of IPI S.p.A.
Tabellini Guido	--
Zanni Umberto	--

**List of the positions held by the Statutory Auditors and Alternate Auditors of CIR S.p.A. in other companies listed on Italian regulated markets (at December 31 2010)**

Manzonetto Pietro	Statutory Auditor of RCS Media Group S.p.A. Supervisory Director of Banco Popolare Società Cooperativa
Nani Luigi	Alternate Auditor of Cofide S.p.A. *
Zingales Riccardo	Director of Banca Albertini Syz & C. S.p.A. Director of Valora S.p.A. Statutory Auditor of Cofide S.p.A. * Statutory Auditor of Sogefi S.p.A. * Statutory Auditor of Sorigenia S.p.A. * Statutory Auditor of Tirreno Power S.p.A. *

Macchiorlatti Vignat Luigi	Alternate Auditor of Cofide S.p.A. * Statutory Auditor of Gruppo Editoriale L'Espresso * Alternate Auditor of Sogefi S.p.A. *
Ponzellini Gianluca	Member of the Supervisory Board of IntesaSanpaolo S.p.A. Statutory Auditor of Telecom Italia S.p.A. Chairman of the Board of Statutory Auditors of De'Longhi S.p.A. Alternate Auditor of Mittel S.p.A.
Reboa Marco	Director of ENI S.p.A. Director of Interpump S.p.A. Director of Luxottica Group S.p.A. Chairman of the Board of Statutory Auditors of Mediobanca Statutory Auditor of Gruppo Lactalis Italia S.p.A. Statutory Auditor of Egidio Galbani S.p.A.

*\* companies of the Group*