



# **REPORT ON CORPORATE GOVERNANCE**

Pursuant to articles 123 *bis* Consolidated Financial Act (*Testo Unico Finanza*), 89 *bis* Consob Issuers' Regulation and art. IA.2.6 of Stock Market Rules

Company: CEMBRE S.P.A. - Via Serenissima 9 - 25135 Brescia  
Web site: [www.cembre.it](http://www.cembre.it)

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# CONTENTS

CONTENTS.....	2
GLOSSARY .....	4
1. PROFILE OF THE COMPANY.....	5
2. INFORMATION on OWNERSHIP STRUCTURE ( <i>ex art. 123bis, TUF</i> ).....	5
as of December 31, 2010.....	5
<i>a) Share capital structure (art. 123-bis, comma 1, par. a), TUF)</i> .....	5
<i>b) Share transfer restrictions (art. 123-bis, comma 1, par. b), TUF)</i> .....	5
<i>c) Significant shareholdings (art. 123-bis, comma 1, par. c), TUF)</i> .....	5
<i>d) Securities carrying special rights (art. 123bis, comma 1, par. d), TUF)</i> .....	6
<i>e) Employee share ownership: mechanism to exercise voting rights (art. 123-bis, comma 1, par. e), TUF)</i> .....	6
<i>f) Restrictions to exercise voting rights (art. 123bis, comma 1, par. f), TUF)</i> .....	6
<i>g) Shareholders agreements (art. 123bis, comma 1, par. g), TUF)</i> .....	6
<i>h) Changes to the Company's By-laws (art. 123bis, comma 1, par. l), TUF)</i> .....	6
<i>i) Proxies for share capital increase and authorization to purchase own shares (art. 123-bis, comma 1, par. m), TUF)</i> .....	7
<i>l) Change of control cause (art. 123-bis, comma 1, par. h), TUF)</i> .....	7
<i>m) Indemnity for Directors in the event of resignation, dismissal or cessation of employment following a take-over bid (art. 123-bis, comma 1, par. i), TUF)</i> .....	7
3. COMPLIANCE .....	8
4. MANAGEMENT AND COORDINATION ACTIVITY .....	8
5. BOARD OF DIRECTORS .....	8
5.1. APPOINTMENT AND REPLACEMENT OF DIRECTORS ( <i>ex art. 123-bis, comma 1, par. l), TUF)</i> .....	8
5.2. COMPOSITION ( <i>ex art. 123-bis, comma 2, par. d), TUF)</i> .....	10
5.3. BOARD OF DIRECTORS' OPERATIONAL ASPECTS .....	12
5.4. ROLE OF THE BOARD OF DIRECTORS ( <i>ex art. 123-bis, comma 2, par. d), TUF)</i> .....	13
5.5. REPRESENTATIVE BODIES .....	17
5.6. OTHER EXECUTIVE DIRECTORS .....	21
5.7. INDEPENDENT DIRECTORS .....	21
5.8. LEAD INDEPENDENT DIRECTOR.....	22
6. HANDLING OF COMPANY INFORMATION .....	22
7. BOARD OF DIRECTORS' INTERNAL COMMITTEES .....	23

<b>8. APPOINTMENT COMMITTEE .....</b>	<b>23</b>
<b>9. REMUNERATION COMMITTEE.....</b>	<b>23</b>
<b>10. REMUNERATION OF DIRECTORS .....</b>	<b>25</b>
<b>11. INTERNAL CONTROL COMMITTEE .....</b>	<b>26</b>
<b>12. INTERNAL CONTROL SYSTEM .....</b>	<b>28</b>
<b><i>12.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM .....</i></b>	<b><i>32</i></b>
<b><i>12.2. PERSON IN CHARGE OF INTERNAL CONTROL .....</i></b>	<b><i>32</i></b>
<b><i>12.3. ORGANIZATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001 .....</i></b>	<b><i>33</i></b>
<b><i>12.4. INDEPENDENT AUDITORS .....</i></b>	<b><i>34</i></b>
<b><i>12.5. MANAGER IN CHARGE OF DRAFTING THE ACCOUNTING AND CORPORATE RECORDS .....</i></b>	<b><i>34</i></b>
<b>13. INTEREST OF THE DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES.....</b>	<b>35</b>
<b><i>13.1 COMMITTE FOR RELATED PARTIES DEALING.....</i></b>	<b><i>36</i></b>
<b>14. APPOINTMENT OF STATUTORY AUDITORS.....</b>	<b>37</b>
<b>15. STATUTORY AUDITORS (<i>ex art. 123-bis, comma 2, par. d</i>), TUF) .....</b>	<b>38</b>
<b><i>15.1 FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS .....</i></b>	<b><i>39</i></b>
<b>16. RELATIONSHIPS WITH SHAREHOLDERS.....</b>	<b>40</b>
<b>17. SHAREHOLDERS' MEETINGS (<i>ex art. 123-bis, comma 2, par. c</i>), TUF) .....</b>	<b>40</b>
<b>18. FURTHER CORPORATE GOVERNANCE PRACTICES .....</b>	<b>43</b>
<b>19. CHANGES OCCURRED FROM THE CLOSING DATE OF THE FINANCIAL YEAR.....</b>	<b>43</b>

## GLOSSARY

**Code of Conduct:** Code of Conduct (Codice di Autodisciplina, hereinafter also the “Code”) of listed companies issued in March 2006 by the Committee for the Corporate Governance of Listed Companies and promoted by Borsa Italiana S.p.A., available on the institutional website of the Italian Stock Market [www.borsaitaliana.it](http://www.borsaitaliana.it), in the Italian Stock Market (*Borsa Italiana*) – Regulations – *Corporate Governance* section.

**Civil Code/ C.C.:** the Italian Civil Code.

**Board or Board of Directors:** the Company’s Board of Directors.

**Issuer or Company:** the issuer of listed stock to which the Report makes reference.

**Financial year:** the financial year to which the Report refers.

**Rules for the Implementation of Listed Companies Regulations:** Rules for the Implementation of Regulations for Markets organized and managed by Borsa Italiana S.p.A.

**Stock Market Rules:** Rules for Markets organized and managed by Borsa Italiana S.p.A.

**Consob Issuers’ Regulation:** Rules issued by Consob with Resolution no. 11971 of 1999 on listed companies.

**Consob Market Regulation:** Rules issued by Consob with Resolution no. 16191 of 2007 on markets.

**Report:** the report on corporate governance that companies are required to prepare pursuant to articles 123*bis* Consolidated Financial Act (*Testo Unico Finanza*), 89 *bis* Consob Listed Companies Regulations.

**TUF (Finance Act, *Testo Unico della Finanza*):** Legislative Decree no. 58 of February 24 1998.

## 1. PROFILE OF THE COMPANY

The Company, founded in 1969, has registered office in Brescia and designs, manufactures and distributes electrical compression connectors and installation tooling, a sector in which it enjoys a leadership position in Italy and gained significant market shares in Europe. Cembre is one of the world's leading manufacturers of tools (mechanical, pneumatic and hydraulic) for the installation of connectors and the shearing of cables.

Cembre has been listed on the Italian Stock Exchange since December 15, 1997, and on the STAR section since September 24, 2001.

Cembre is controlled by Lysne S.p.A., a company with registered office in Brescia, with a 54,334% share. Parent company Lysne S.p.A. is owned by the Rosani family, while no entity controls Lysne S.p.A. pursuant to article 93 of the Financial Act.

The Company is organized along traditional administration and control lines, as described in articles 2380-*bis* and following of the Italian Civil Code, and has a Shareholders' Meeting, Board of Directors and Board of Statutory Auditors.

On March 10, 2010 the Chairman of the Company, Carlo Rosani, passed away. On March 15, 2010 the Board of Directors appointed Giovanni Rosani as the new Chairman.

## 2. INFORMATION on OWNERSHIP STRUCTURE (*ex art. 123bis*, TUF) as of December 31, 2010

### a) Share capital structure (*art. 123-bis*, comma 1, par. a), TUF)

Share capital fully underwritten and paid-up is currently €8,840,000.00.

Classes of shares:

	No. of shares	% of share capital	Listed (market) / not listed
Ordinary shares	17,000,000	100	Italian stock market/ STAR segment

Each share gives right to one vote.

Rights and obligations of Shareholders are those prescribed in articles 2346 and following of the Civil Code. See also paragraph 17 of the present Report.

No share-based incentives pursuant to articles 114-*bis* in favor of managers, employees or other persons working for the company, parent or subsidiaries thereof were resolved in the year.

### b) Share transfer restrictions (*art. 123-bis*, comma 1, par. b), TUF)

No restriction exists on share transfer.

### c) Significant shareholdings (*art. 123-bis*, comma 1, par. c), TUF)

At December 31, 2010, Shareholders of the Company holding, either directly or indirectly, shares larger than 2% in the share capital, through pyramidal ownership structures of cross shareholdings, as resulting from communications made pursuant to article 120 TUF and from information available to the Company, are shown in the table below:

Declarer	Direct shareholder	% of ordinary capital	% of voting capital
<b>Lysne Spa</b>	<b>Lysne Spa</b>	<b>54.33</b>	<b>54.33</b>
<b>Anna Maria Onofri</b>	<b>Anna Maria Onofri</b>	<b>8.35</b>	<b>8.35</b>
<b>Giovanni Rosani</b>	<b>Giovanni Rosani</b>	<b>4.71</b>	<b>4.71</b>
<b>Sara Rosani</b>	<b>Sara Rosani</b>	<b>4.82</b>	<b>4.82</b>
<b>Aldo Bottini Bongrani</b>	<b>Aldo Bottini Bongrani</b>	<b>2.12</b>	<b>2.12</b>

**d) Securities carrying special rights (art. 123bis, comma 1, par. d), TUF)**

None of the Company shares carry any special rights.

**e) Employee share ownership: mechanism to exercise voting rights (art. 123-bis, comma 1, par. e), TUF)**

No specific mechanism is provided to exercise voting rights in case of employee share ownership.

**f) Restrictions to exercise voting rights (art. 123bis, comma 1, par. f), TUF)**

No restrictions to exercise voting rights exist.

**g) Shareholders agreements (art. 123bis, comma 1, par. g), TUF)**

The Company is aware of the existence of an agreement among Shareholders, relevant pursuant to article 122 TUF, having as the object shares of Lysne S.p.A., the company that controls Cembre S.p.A. pursuant to article 93 TUF.

Said agreement, entered into on December 21, 2005 and amended on March 19, 2010, set forth a voting syndicate and a block syndicate, providing thus for restrictions to the exercise of vote and limitations to the free disposal of shares bound by the agreement.

The agreement involves 597,500 shares of Lysne S.p.A. (representing 58.578% of its share capital) of which 520,500 shares (representing 51.028% of the share capital) are subject to both syndicates, and 77,000 shares (representing 7.550% of the share capital) are subject only to the block syndicate.

The owners of the shares bound by the agreement are:

- Giovanni Rosani, owner of 260,250 shares subject to both syndicates, and 38,500 shares subject only to the block syndicate;
- Sara Rosani, owner of 260,250 shares subject to both syndicates, and 38,500 shares subject only to the block syndicate.

**h) Changes to the Company's By-laws (art. 123bis, comma 1, par. l), TUF)**

Amendments to the Company's By-laws are regulated by applicable laws in force.

Pursuant to article 18 of the By-laws, the following powers are attributed to the Board of

Directors:

- a) resolutions on mergers in those cases described in articles 2505 e 2505-*bis* of the Civil Code;
- b) resolutions on spin-off in those cases described in articles 2506-*ter* e 2505-*bis* of the Civil Code;
- c) share capital reduction in case of withdrawal of a Shareholder;
- d) changes in the By-laws in compliance with regulations and laws introduced from time to time;
- e) transfer of the registered office to another location outside the municipality on the national territory.

**i) Proxies for share capital increase and authorization to purchase own shares (art. 123-*bis*, comma 1, par. m), TUF)**

In the course of the year, the Board did not receive a proxy by the Shareholders' Meeting to execute share capital increases pursuant to article 2443 of the Civil Code, or to issue financial instruments involving participation in the share capital.

The Shareholders' Meeting held on April 28, 2009, authorized the Board, pursuant to articles 2357 and following of the Civil Code and to article 132 TUF, to acquire, in one or more instalments over a period of twelve months from said resolution, shares of the Company up to a maximum of 20% of the share capital. This authorization expired on April 28, 2010. The Shareholders' Meeting also authorized the future disposal of treasury shares without time limitations.

For further detail we refer to the minutes of said Shareholders' Meeting available on the [www.cembre.it](http://www.cembre.it) institutional site in the *Investor Relations* section.

At the date of the present Report, the Company does not hold any of its shares.

**l) Change of control cause (art. 123-*bis*, comma 1, par. h), TUF)**

The Company and its subsidiaries have not entered into any agreement which includes a clause coming into force or being terminated in the event of change of control.

**m) Indemnity for Directors in the event of resignation, dismissal or cessation of employment following a take-over bid (art. 123-*bis*, comma 1, par. i), TUF)**

No agreement providing for any indemnity in case of dismissal or cessation of employment without just cause, or in case employment is terminated following a take-over bid, has been entered into between the Company and the members of the Board of Directors.

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With reference to further information as per article 123bis TUF, we refer to specific paragraphs further on in the present Report, as indicated below:

- with regard to information on the appointment and replacement of Directors (art. 123-*bis*, comma 1, par. l), section 1) see paragraph 5.1 below;

- with regard to information on main characteristics of the risk management and internal control systems (art. 123-*bis*, comma 2, par. b)) please see paragraphs 11 and 12 below;
- with regard to information on the functioning of Shareholders' Meetings, on powers of the same, Shareholder rights and their exercise (art. 123-*bis*, comma 2, par. c)), please see paragraph 17 below;
- with regard to information on the composition and functioning of corporate, administration and control boards and the related committees (art. 123-*bis*, comma 2, par. d)), please see paragraphs 5, 7, 8, 9, 11, 14 and 15.

### **3. COMPLIANCE**

The Company adopted the Code.

Cembre SpA is not subject to non-Italian law provisions which may affect the structure of the Company's corporate governance.

### **4. MANAGEMENT AND COORDINATION ACTIVITY**

Though under the control of Lysne S.p.A. for the purposes of article 2359 of the Civil Code, the Company does not deem itself to be subject to the management and coordination of its parent pursuant to article 37, comma 2, of Consob Market Regulations.

The Company deems to operate under full corporate and management autonomy from its parent Lysne S.p.A. In particular and as a non-exhaustive example, the Company manages independently its treasury and trade relationships with its customers and suppliers, and does not make use of any service provided by its parent company.

Relationships with Lysne S.p.A. are limited to the normal exercise by the same of administrative and ownership rights pertaining to its quality of shareholder.

### **5. BOARD OF DIRECTORS**

#### **5.1. APPOINTMENT AND REPLACEMENT OF DIRECTORS (*ex art. 123-bis, comma 1, par. 1), TUF*)**

The By-laws of the Company set rules for the composition and appointment of Board members (article 15) which are adequate in ensuring compliance with related regulation contained in Legislative Decree no. 27 of January 27, 2010 that implements into Italian Law EU Directive 2007/36 on the exercise of some rights of shareholders of listed companies. Amendments to the By-laws to bring them into line with the mentioned legislation were approved by the Board of Directors on November 11, 2010.

Pursuant to art. 15 of the Company's By-laws, lists of candidates to the position of Director must be deposited by Shareholders at the Company Registered Office at least 25 days prior to the date set for the Shareholders' Meeting on first call.



Lists may be submitted only by Shareholders who represent, either individually or jointly with other Shareholders, at least 2.5% of voting rights at any Shareholders' Meeting, or any other limit established by other laws and regulations. Through Regulation no. 17633 of January 26, 2011, Consob set at 2.5% of voting rights the quorum for submitting lists of candidates to the position of Director of the Company for the financial year ended December 31, 2010.

The mechanism for the appointment to the position of Directors of candidates in the various lists is the following:

- a) all Directors save one are drawn from the most voted list in the order in which they are listed;
- b) the second voted list that is not connected in any way with any of the Shareholders that submitted or voted the most voted list described in paragraph a) above, is used to draw a Director, in the person of the first person listed. In case the minority list referred to in paragraph b) above has not received at least half of the votes required to submit the list according to the above mentioned rules, all Directors shall be appointed from the most voted list;

In case through the method described above a sufficient number of Directors possessing requisites of independence equal to the minimum number required by Law as a proportion of the total number of Directors is not achieved, the non-independent candidate elected last in the most voted list, as described in paragraph a), will be replaced by the first subsequent independent candidate that has not been elected from the list or, lacking this, by the first independent candidate that has not been elected from the other lists, giving priority to the list according to the number of votes it received. The procedure is followed until the Board comprises a minimum number of Directors possessing the requisites described in article 148, comma 3, TUF, equal at least to the minimum number prescribed by Law. In case, finally, such procedure is unable to ensure the result just indicated, the replacement will take place by resolution of the Shareholders' Meeting with the quorum established by Law.

In case a single list or no list is presented, the Shareholders' Meeting resolves with the quorum established by Law without following the procedure described above.

In case in the year one or more Directors leave their position, and provided the majority of the Board is still made up by Directors appointed by the Shareholders' Meeting, the following procedure is applied pursuant to article 2386 of the Civil Code:

- i) The Board of Directors, after a resolution of the Board of Statutory Auditors, replaces the Director with a candidate on the same list as the one who has left office, while the Shareholders' Meeting resolves according to the quorum set by Law, following the same criteria;
- ii) in case in the aforementioned list there do not remain candidates that have not already been elected, or candidates possessing the requirements for appointment, or in any case when, for whatever reason, it is not possible to comply with the procedure described in paragraph i) above, the Board of Directors, after a resolution of the Board of Statutory Auditors and subsequently the Shareholders' Meeting according to the quorum set by Law, proceeds with the replacement of the Director without making use of voted lists.

In any case, the Board and the Shareholders' Meeting proceed to the appointment so as to ensure the presence of the minimum number of independent Directors required by regulations in force.

In the event of one or more Directors leaving their position, and provided the resulting majority of the Board is still made up by Directors appointed by the Shareholders' Meeting, the latter may however resolve to reduce the number of Directors to that of Directors still in office for the duration of their term, provided a sufficient number of independent Directors remains in office to ensure compliance with applicable regulations and that the Director appointed from the minority list is still in office.

In case the majority of Directors appointed by the Shareholders' Meeting leaves office, the whole Board is considered as terminated, effective at the time of the appointment of a new

Board, and a Shareholders' Meeting must be called without delay by the Directors still in office to appoint a new Board.

When the number of Directors appointed is lower than the maximum set in article 15 of the By-laws, the Shareholders' Meeting may, throughout the term of the Board, increase the number of Directors up to the limit set in the By-laws.

The appointment of further Directors will take place as follows:

i) additional Directors are appointed from the most voted list by Shareholders at the time of the appointment of Directors currently in office, drawn from candidates that are still eligible, while the Shareholders' Meeting resolves in accordance with the quorum set by Law, following the same criterion;

ii) in case no candidates remain in the most voted list, or the case provided for in comma 5, last paragraph of article 15 of the By-laws occurs, the Shareholders' Meeting proceeds to the appointment without observing the procedure described in paragraph i), with the quorum set by law and without making use of voting lists.

The Shareholders' Meeting may however resolve to reduce the number of Directors to that of Directors in office for the residual term of their mandate, subject to limits set by applicable laws and regulations regarding the composition of Board of Directors.

Where it has not already been appointed by the Shareholders' Meeting, the Board of Directors appoints one of its members as Chairman and, where deemed appropriate, one or more Vice Chairmen having vicarious powers to that of the Chairman.

## 5.2. COMPOSITION (ex art. 123-bis, comma 2, par. d), TUF)

The Shareholders' Meeting held on April 28, 2009 appointed from the sole list submitted by the majority shareholders Lysne S.p.a the Board of Directors currently in office, originally made up by 8 (eight) members. As a result of the passing away of the former chairman, Carlo Rosani, the Ordinary Shareholders' Meeting of April 27, 2010 resolved to reduce to 7 (seven) the number of Directors.

The Board of Directors will remain in office until the date of the Shareholders' Meeting called to approve the Financial Statements at December 31, 2011. Curricula of Directors are deposited at the Company's Registered Office and published on the Company's institutional site [www.cembre.it](http://www.cembre.it) in the Investor Relations sector.

Name	Position	In office since	In office until	List	Exec.	Non-exec.	Indep.	Indep. TUF	% BoD	Other positions
Carlo Rosani		April 28, 2009	March 3, 2010	M	X					
Anna Maria Onofri	Vice Chairman Managing Director	April 28, 2009		M	X				75	
Giovanni Rosani	Chairman Managing Director	April 28, 2009		M	X				100	
Sara Rosani	Director	April 28, 2009		M		X			50	

Giovanni De Vecchi	Director	April 28, 2009		M		X			100	
Aldo Bottini Bongrani	Director	April 28, 2009		M	X				75	
Giancarlo Maccarini	Director	April 28, 2009		M		X	X	X	100	
Fabio Fada	Director	April 28, 2009		M		X	X	X	100	6

LEGEND

**Position:** please state if Chairman, Deputy Chairman, Managing Director, etc.

**List:** please indicate M/m, if Director was elected by majority or minority list (art. 144-decies, of Consob Issuers' Regulations)

**Exec.:** please tick if Director can be qualified as executive

**Non exec.:** please tick if Director can be qualified as non-executive

**Indep.:** please tick if Director can be qualified as independent, in compliance with Code criteria: please indicate at foot of Table if the criteria have been either integrated or modified (Section 5.5 of this document)

**Indep. TUF:** please tick if Director is qualified for independence in compliance with art. 148 par. 3 of TUF (art. 144-decies, Consob Issuers' Regulations)

**% BoD:** please indicate percentage of Director's attendance to the Board's meetings (in calculating this percentage, please consider the number of meetings attended vis-à-vis the Board's meetings convened over the financial year or after taking office)

**Other positions:** please indicate total of positions covered in other companies listed in regulated markets (also abroad), finance companies, banks, insurance companies, or large companies, identified on the basis of the criteria drafted by the Board of Directors.

**N/A:** not applicable.

Name	Position	EC	% EC	A.C.	% A.C.	R.C.	% R.C.	I.C.C.	% I.C.C.
Fabio Fada	Director	n.a.		n.a.		P	*	P	100
Giancarlo Maccarini	Director	n.a.		n.a.		M	*	M	100
Giovanni De Vecchi	Director	n.a.		n.a.		M	*	M	80

LEGEND

\*: the Remuneration Committee did not meet in 2010

**EC:** Executive Committee; please indicate C/M if Chairman/Member of Executive Committee.

**% EC:** please indicate percentage of Director's attendance to Executive Committee meetings (in calculating this percentage, please consider the number of meetings attended vis-à-vis Executive Committee meetings convened over the financial year or after taking office).

**A.C.:** Appointment Committee; please indicate C/M if Chairman/Member of the Appointment Committee.

**% A.C.:** please indicate percentage of Director's attendance to Appointment Committee meetings (in calculating this percentage, please consider the number of meetings attended vis-à-vis Appointment Committee meetings convened over the financial year or after taking office).

**R.C.:** please indicate C/M if Chairman/Member of Remuneration Committee.

**% R.C.:** please indicate percentage of Director's attendance to Remuneration Committee meetings (in calculating this percentage, please consider the number of meetings attended vis-à-vis Remuneration Committee meetings convened over the financial year or after taking office).

**I.C.C.:** please indicate C/M if Chairman/Member of the Internal Control Committee.

**% I.C.C.:** please indicate percentage of Director's attendance to Internal Control Committee meetings (in calculating this percentage, please consider the number of meetings attended vis-à-vis Internal Control Committee meetings convened over the financial year or after taking office).  
N/A: not applicable.

### **Limits on cumulation of positions held in other companies**

The Board of Directors did not deem it necessary to set the maximum number of managerial and administrative positions that may be considered compatible with the effective carrying out of the role of Director in the Company. Directors will be however held responsible for evaluating the compatibility of positions of Director or Statutory Auditor in other companies listed in regulated markets, banks, finance companies, insurance companies or large companies with the diligent carrying out of responsibilities and duties assumed with the position of Director in the Company.

In the course of the meeting held on May 14, 2010, upon verifying positions held by Directors of the Company in other companies, the Board has deemed the number and quality of positions held as not interfering with the position of Director in the Company and therefore compatible with an effective carrying out of the role of Director of the Company in all cases examined.

With regard to positions held in the year by Directors of the Company in other companies listed in the regulated markets, banks, finance companies, insurance companies and large companies, it is acknowledged that Director Fabio Fada holds the following positions:

- Chairman of the Monitoring Committee of Value Partners S.p.A.
- Chairman of the Monitoring Committee of Valure Team S.p.A.
- Chairman of the Monitoring Committee of Industrie Riunite Odolesi I.R.O. S.p.A
- Member of the Monitoring Committee of Feralpi Holding S.P.A.
- Member of the Monitoring Committee of Feralpi Siderurgica S.p.A.
- Statutory Auditor of Metalfer Spa (Roè Volciano)

### **5.3. BOARD OF DIRECTORS' OPERATIONAL ASPECTS**

As stated in article 15 of the Company's By-laws, the Board of Directors shall consist of a minimum of 3 to a maximum of 11 members. Directors are appointed for a term that does not exceed three years, ending with the approval by the Shareholders' Meeting of the financial statements for the last of the three years of the term and may be re-appointed. Before proceeding to the appointment of the Board, the Shareholders' Meeting sets the number of its components and the term of the Board of Directors to be appointed.

Article 16 of the By-laws empowers the Board to appoint from its members one or more Managing Directors and/or an Executive Committee, determining, within the limits set forth in article 2381 of the Civil Code, its powers, and in the case of the Executive Committee, also the number of its components, the term, and norms regulating its functioning. Committees ensure that the organizational, administrative and accounting management of the Company is adequate in relation to the nature and size of the same, and report to the Board of Directors and the Board of Statutory Auditors at least quarterly on the general performance of the Company and its outlook, in addition to major transactions concluded, either by size or importance, by the Company or its subsidiaries.

Pursuant to article 17 of the Board of Directors, the Board meets at the Company's Registered Office or elsewhere on the national territory, any time the Chairman deems it necessary or whenever at least two of its Directors request it. Board of Directors' meetings may also be convened upon request of two Statutory Auditors, upon prior notice to the Chairman of the Board of Directors. Board meetings may also be held by means of communication devices in teleconferencing or videoconferencing, provided each of the participants can be identified by all other participants and that each of them is able to participate in the discussion and to intervene in real time during the discussion of issues, in addition to being able to receive, transmit or review documents and the contemporaneity of the examination of issues and the resulting resolution is ensured.

The Board of Directors is called by its Chairman or, in case of his or her proven impediment, by at least two Directors, by letter or fax to be delivered at least three days before the meeting to each member of the Board and, in case of urgent issues, by telegram, fax or e-mail to be delivered at least one day prior to the meeting.

The Chairman or one Managing Director coordinates Board meetings and provides for adequate information on issues to be discussed to be provided to all Directors.

In case of absence of both the Chairman and the Managing Director, other members of the Board present at the meeting shall appoint, with a majority vote of Directors present, one of them as Chairman for the purposes of the specific Board meeting.

Resolutions must be taken by majority vote of Directors in office to be valid. Resolutions are passed by majority vote of members present at the meeting; in case of even vote, the vote of the Chairman of the meeting shall prevail.

#### **5.4. ROLE OF THE BOARD OF DIRECTORS (*ex art. 123-bis, comma 2, par. d), TUF*)**

The management of the Company is the exclusive responsibility of the Board of Directors that carries out all operations necessary to attain the corporate objectives.

By express provision of the By-laws (as indicated further on), the following are reserved to the Board of Directors, holding valid powers reserved to the Managing Directors:

- (i) the right to examine the operations of the Company, based on the report of the Managing Directors and of those Directors that hold specific positions (article 18, comma 4 of the By-laws). In exercising such function, the Board shall, among other things, evaluate with particular care potential conflicts of interest, keep into account information received by Managing Directors and compare periodically results achieved with those budgeted. The Board also examines and approves strategic guidelines, industrial and financial plans, where these have been drafted, for the Company and the Group (article 18, comma 4 of the By-laws);
- (ii) the examination and approval of transactions that have a significant importance either from an asset or financial point of view, with particular reference to transactions with related parties;
- (iii) the evaluation, based on information received by the Managing Directors, pursuant to article 16, comma 6 of the By-laws, of the adequacy of the general organizational, administrative and accounting structure of the Company and the Group set in place by the Managing Directors (article 18, comma 4 of the By-laws).

The following powers are also attributed to the Board of Directors:

- a) merger resolutions, in the cases described in articles 2505 and 2505-*bis*, of the Civil Code;
- b) business split resolutions pursuant to the joint provisions of articles 2506-ter and 2505-*bis*, of the Civil Code;
- c) a capital stock reduction in the case of the withdrawal of a Shareholder;
- d) changes to the By-laws in compliance with new regulations;
- e) the transfer of the Registered Office to another location on the national territory;
- f) the creation and suppression of secondary offices, branches, agencies and representative offices;
- g) other powers attributed to the Board of Directors by Law and the Company's By-laws;

The Chairman of the Board of Directors and the Managing Director ensure that adequate information on issues in agenda is provided to all Directors. In particular, this information is provided in a manner and timing that allows Directors to express their cognitive opinion on issues submitted to their examination, supplying with appropriate advance the drafts of documents to be approved, with the sole exception of cases of particular and proven urgency.

In the year, the Board of Directors met 4 (four) times on the following dates: March 15, May 13, August 26 and November 11.

Minutes of the meetings were regularly kept.

The duration of Board meetings has been on the average about one hour and thirty minutes.

In the current year the Board plans to meet at least 4 (four) times. In addition to the meeting already held on March 15, 2011 (approval of financial statements of Cembre and the Consolidated Financial Statements for the year ended December 31, 2010), the calendar of main corporate events for 2011 (already communicated to Borsa Italiana – the Italian stock market regulator – in compliance with regulations) another 3 (three) Board meetings are scheduled at the following dates:

- May 13: approval of the Report on the 1<sup>st</sup> Quarter of 2011;
- August 29: approval of the Report on the 1<sup>st</sup> Half of 2011;
- November 11: approval of the Report on the 3<sup>rd</sup> Quarter of 2011.

Board meetings are attended also by managers of the Company and occasionally by managers of the Group that present further analysis on issues in agenda.

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In its meeting of November 11, 2010, the Board of Directors resolved pursuant to article 8.C.1, paragraph c) of the Civil Code to deem adequate, effective and fully functioning the internal control system, based on the support of the Internal Control Board and the operating review of Managing Directors and of Directors holding proxies.

With regard to the remuneration of Directors, the Board reimbursed each Director for expenses incurred in the exercise of their office in addition to compensating them according to the annual compensation established by the Shareholders' Meeting at the time of their appointment, compensation that remains unchanged until otherwise resolved by the Shareholders' Meeting. Total compensation received by members of the Board of Directors in the year is detailed in the notes to the accounts contained in the financial statements for the respective year, pursuant to article 78 and of Attachment 3C of Consob Issuers' Regulation and subsequent amendments, and is summarized in the table contained in section 10 of the present Report.

The Board of Directors reviewed at least quarterly the operating performance of the Company, keeping into account, in particular, information received by representative bodies.

As provided by the Application Criteria 1.C.1. par. f) of the Civil Code, the Company adopted an internal code (the “**Code**”) regulating informative and procedural aspects relating to operations having a specific economic, equity or financial relevance, with particular reference to transactions with related parties, establishing also criteria (quantitative and/or qualitative) for determining which operations fall in this category and are therefore reserved to the responsibility of the Board of Directors of the Company.

The Code reserves to the exam and approval of the Board:

A) “Relevant Operations”, consisting of:

- 1) the acquisition or sale of companies, businesses or assets (including fixed and non-fixed, tangible and intangible assets), in case at least one of the parameters listed below is equal or higher than 25%:
  - (i) the ratio between the price of the company, or the assets acquired/sold and the average capitalization for the past six months of the Company (“average capitalization” is intended as the product of the number of shares of the Company in circulation and the average official price for the six months preceding the operation);
  - (ii) the ratio between profit before taxes and extraordinary components of the company or business acquired or sold and the consolidated profit of the Group before taxes and extraordinary components reported in the last Consolidated Financial Statements;
  - (iii) the ratio between the Shareholders’ Equity of the company or business acquired or sold and the Consolidated Shareholders’ Equity of the Group as reported in the last Consolidated Financial Statements.
- 2) operations other than the ones indicated in paragraph 1) above whose value exceeds 10% of consolidated sales revenues reported in the last Consolidated Financial Statements;

After the closing of the financial year, and more precisely on March 15, 2010, the Code was amended to take into account, among other things, new significant criteria provided for in Attachment 3B of Consob Issuers’ Regulation.

The amended Code reserves to the exam and approval of the Board all “Relevant Operations”, intended as:

- 1) mergers and spin-off operations, in case at least one of the ratios listed below is equal or above 25%\*:
  - (i) *Assets*: ratio of total assets of merged company or total assets that are the object of the spin-off, and total assets of the Company;

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\* Figures used in computing ratios for the purposes of the amended Code must be drawn from the most recent Consolidated Statement of Financial Position published or the most recent Statement of Financial Position in case the company is not required to prepare consolidated financial statements.

- (ii) *Profitability*: ratio of pre-tax profit and result of transferred assets of merged company, or of assets object of the spin-off and pre-tax profit of the same before the spin-off;
  - (iii) *Shareholders' Equity*: ratio of Shareholders' Equity of merged company or of the business spun-off and Shareholders' Equity of the Company;
  - (iv) *Liabilities*: ratio of total liabilities of merged company or liabilities object of the spin-off and total assets of the Company;
- 2) acquisition and sale of company, businesses, part of businesses or assets (including tangible and intangible assets), in case one of the ratios listed below is equal or above 25%<sup>†</sup>:

- (i) *Amount*: ratio of the amount of the transaction and capitalization of the Company at the closing of the last trading day of the period of the most recent periodical financial report published (annual report, half-yearly report or interim report).
  - (a) with regard to cash components, the amount paid to/by the counterpart pursuant to contractual terms established;
  - (b) with regard to components consisting of financial instruments, the fair value determined at the time of the transaction in line with IFRS adopted through EU Regulation no. 1606/2002.

When the economic terms of the operation depend in full or in part on amounts not yet known, the amount of the operation is the maximum determinable value pursuant to the agreement.

- (ii) *Assets*: ratio of total assets of the company, business or part of business acquired or sold and total assets of the Company.

In the case of acquisitions or sale of investments in companies that have an effect on the consolidation area, the value of the numerator is that of the assets of the invested company, irrespective of the percentage of ownership being transferred.

In the case of acquisitions or sale of investments in companies that do not have an effect on the consolidation area, the value of the numerator is:

- (a) in the case of acquisitions, the value of the operation plus total liabilities of the acquired company transferred to the acquiring company in the sale;
- (b) in the case of sale, the value of the business sold.

In the case of acquisition or sale of other assets (other than the purchase or sale of an equity investment), the value of the numerator is:

- (a) in the case of acquisitions, the higher between the consideration paid and the book value attributed to the asset;
- (b) in the case of sale, the book value of the asset sold.

- (iii) *Profitability*: ratio of pre-tax profit and of results of assets sold by the company, business or part of business acquired or sold, and the total Shareholders' Equity

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<sup>†</sup> Cfr. note \*.



of the Company;

- (iv) *Shareholders' Equity*: ratio of total Shareholders' Equity of the company, business or part of business acquired or sold and the total Shareholders' Equity of the Company;
- (v) *Liabilities*: ratio of total liabilities of the company, business or part of business acquired or sold and total assets of the Company.

Where the purchase or sale relates to an asset, only the ratio described in paragraph (i) above will apply.

- 3) operations other than the ones indicated in paragraph 1) and 2) above whose value exceeds 20% of Revenues (intended as sales revenues reported in the latest Consolidated Financial Statements or in the most recent statement of income where the Company is not required to prepare consolidated financial statements).

For the purposes of ratios indicated in paragraphs 1), 2), and 3) above, each transaction should be considered individually. Exceptionally, transactions that are strictly and objectively linked by a common strategic or operating plan must be qualified as Relevant Operations whenever, considered in the aggregate, they should exceed the above mentioned ratios.

Moreover, in relation to each Relevant Operation, the Board of Directors shall receive from the appointed parties, sufficient information to allow a first review of major elements of the operation. In particular, exhaustive information regarding the strategic reasons for the Relevant Operation and the foreseeable operating, financial and equity impact of the same, also at the consolidated level.

On May 13, 2010, the Board carried out an annual assessment, pursuant to Application Criteria 1.C.1. par. g) of the Civil Code, deeming the composition and functioning of the Board as adequate for the management and organizational needs of the Company, keeping into account of the presence, on a total of eight members, of four Non-Executive Directors, of which two Independent Non-Executive Directors, that ensure an appropriate composition of Committees created within the Board.

The Shareholders' Meeting did not authorize exceptions to the non-competition clause provided under article 2390 of the Civil Code.

## **5.5. REPRESENTATIVE BODIES**

### **Managing Directors**

Pursuant to article 16, comma 3 of the By-laws, the Board of Directors can appoint among its members one or more Managing Directors and/or an Executive Committee, setting its powers, within the limits set by article 2381 of the Civil Code.

The Chairman of the Board currently in office, Giovanni Rosani is empowered with the following powers conferred by the Board of Directors' Resolution dated April 28, 2009, in addition to those reserved by the By-laws to the position of Chairman (*see* related section in this document).

In particular, Giovanni Rosani holds, in his quality of Managing Director, powers of ordinary management held by the Board of Directors, with powers of representation, jointly and severally, with the exception of those powers that may not be delegated pursuant to restrictions

set in article 2381 of the Civil Code, and of powers to examine and approve Relevant Operations and Transactions with Related Parties, which are reserved to the Board pursuant to the Code. Among ordinary management powers attributed to Giovanni Rosani are included, as a non-exhaustive example, the following powers reported below for quick reference, as resolved by the Board of Directors of April 28, 2009:

- 1) Stipulate, modify, resolve, transfer and acquire by way of transfer, purchase and sale contracts or exchange contracts, also receiving machinery, motor vehicles, finished products, semi-finished products, raw materials and accessories.
- 2) Assume or assign contract work and supplies in general, signing the related contracts and any other related and consequent deed, including contracts for the temporary association of companies.
- 3) Stipulate, modify and resolve contracts with freelance personnel and professionals.
- 4) Hire and fire workers and employees in general, including managers, determining their tasks and retribution.
- 5) Stipulate, modify and resolve agency and trade representation contracts in general.
- 6) Stipulate, modify and resolve insurance, rent and lease contracts, and resolving the same.
- 7) Represent the Company with the VAT Office, the Direct and Indirect Tax Office and Administrative and Tax Commissions of any order and level, underwriting petitions, appeals, complaints and whatever else is necessary, with powers to appoint special attorneys.
- 8) Represent the Company with the Bank of Italy, signing banking documents and all other documents relating to imports and exports, to be made with the Ufficio Italiano Cambi (UIC, foreign-exchange office), exonerating the UIC from any responsibility with regard to the present proxy.
- 9) Represent the Company with customs, railway, tram, maritime, air and transport companies in general, post and telegraph offices in all shipping, import and collection of goods, valuables, packages, belongings, and letters, including registered and insured mail.
- 10) Represent the Company in labor litigation.
- 11) Participate in and bid at public auctions.
- 12) Stipulate, modify, recede and resolve from leasing contracts for fixed and non-fixed assets, also registered, and carry out maintenance needed; stipulate, modify and resolve financial and operating leases.
- 13) Present for collection, collect, issuing receipt, amounts, receivables, bills, security deposits, checks and receivables in general, invoices, money orders, Treasury bonds, guarantee deposits from the Central Bank, the Cassa Depositi e Prestiti, post offices, tax offices and treasuries, and any other public or private office. Represent the Company in Court proceedings and in litigation on the collection of receivables.
- 14) Issue money drafts on customers and debtors in general.
- 15) Endorse checks, bills and transfers in general, both for discounting and deposit on the Company's current accounts, both with banks and post office.
- 16) Endorse checks in favor of third parties, make money transfers and write checks for cashing at banks, also against overdrafts covered by lines of credit, or post offices against deposits.
- 17) Transfer funds among banks within credit lines available, also between the Company and its subsidiaries.

- 18) Issue short-term commercial paper.
- 19) Repay loans.
- 20) Establish relationships with banks, credit institutions, post offices, signing contracts concerning the opening of said accounts. Negotiate and accept lines of credit and overdraft lines signing any related contract in the name of the Company.
- 21) Underwrite, accept and endorse bills and credit documents in general.
- 22) Transfer receivables for any reason.
- 23) Issue on behalf of the Company guarantees, joint obligations, secured guarantees in favor of third parties, including Group companies.
- 24) Exercise voting rights and represent the Company in Shareholders' meetings of companies, consortia and other entities in which it holds a stake, in addition to exercising all other rights of the Company vis-à-vis its stake in other companies, consortia and other entity in which it holds a stake.
- 25) Stipulate purchase contracts – including by means of the incorporation of companies and associations of companies – or contracts for the acquisition or sale of investments in other companies or businesses.
- 26) Request any competent Authority administrative and police licenses, in particular commercial licenses, also putting them provisionally in its own name as legal representative of the Company.
- 27) Transact, and settle arbitration, also out of Court, initiate petitions, appeals and complaints, initiate administrative and legal action at any stage and degree and in any proceeding, also cautionary and injunctive, holding legal representation of the Company in Court both as recurrent and defendant, also for revocation and cassation proceedings, appointing lawyers and attorneys in litigation, legally representing the Company with any Authority.
- 28) Protest, request injunctions, promote conservative and executive deeds, intervene in bankruptcy proceedings requiring amounts receivable, declaring their true existence.
- 29) Grant loans to employees and third parties, granting advances for intellectual property rights.
- 30) Represent the Company with Consob (the stock market regulator) and against the companies managing the stock market in proceedings eventually arising before the same, with powers to draft communications and/or any other deed or document pursuant to laws and regulations applicable.
- 31) Prepare the report on issues in agenda for the Shareholders' Meeting pursuant to Decree 437 of the Ministry of Justice dated November 5, 1998, and of applicable norms, publishing the notice calling Shareholders' Meetings.
- 32) Carry out any operation with factoring and leasing companies, underwriting the related contracts.
- 33) Deposit on behalf of the Company securities for deposit and administration, in addition to retrieving securities deposited with banks, issuing the related receipt.
- 34) Negotiate advances on securities or goods.
- 35) Negotiate the opening of credit with powers to sign all documents relating to import and export operations, including the related foreign-exchange forms, declarations attesting price and assuming responsibilities.
- 36) Negotiate loans in euro and/or any other currency, with powers to sign any related

document.

- 37) Confer, modify and/or revoke general proxies and confer, modify and/or revoke special proxies for individual deeds or category of deeds.
- 38) Sign the correspondence in the name of the Company.
- 39) In addition to the above mentioned powers, representing a non-exhaustive example, all management powers belonging to the Board of Directors, with the exception of those otherwise reserved by Law, with legal representation and single signature.

The Board of Directors of April 28, 2009 attributed to Giovanni Rosani the responsibility for implementing the guidelines set by the Board (as provided by article 8 of the Code) through the planning, management and monitoring of the internal control system.

The Board of Directors of April 28, 2009 attributed Anna Maria Onofri (appointed Vice Chairman and Managing Director by the same resolution) the powers listed below, also within the limits of set in article 2381 of the Civil Code with regard to non-delegable powers, and the power to examine and approve Relevant Operations and Transactions with Related Parties, reserved to the Board pursuant to the Code, as mentioned above:

- 1) in case of absence or impediment of the Chairman and Managing Director Giovanni Rosani, all ordinary management powers held by the Board, with legal representation and single signature, with the exception of the appointment of professionals for specific tasks;
- 2) manage relationships and relations with employees and their families, of non-profit humanitarian associations in general and of all those organizations which, by statute, carry out solidarity, social and civil activities.

Managing Directors are also in charge of ensuring that the organizational, administrative and accounting organization of the Company is adequate in respect of the nature and dimensions of the same (see article 16, paragraph 6 of the By-laws).

### **Chairman**

According to the By-laws, the Chairman of the Board holds powers to chair the Shareholders' Meeting (article 13), call Board meetings (article 17), in addition to holding the legal representation of the Company against third parties and in Court (article 19), and to delegated powers as specified above.

Following the passing away of the Chairman of the Company, Carlo Rosani, the Board of Directors of March 15, 2010 appointed Giovanni Rosani as its Chairman.

Where appointed, the Vice Chairman has vicarious responsibilities with respect to those of the Chairman (article 16).

### **Executive Committee**

The Board of Directors did not create an Executive Committee among its members.

### **Information to the Board of Directors**

As prescribed in article 16 of the By-laws, Managing Directors and Executive Directors have regularly informed the Board in a timely manner and at least on a quarterly basis at Board meetings on: (i) activities implemented in compliance with their proxies; (ii) the operating performance of the Company and their outlook; (iii) the most significant corporate events, either

by dimension or characteristics, involving the Company or its subsidiaries, and (iv) Transactions with Related Parties, in compliance with the internal procedure described in paragraph 13 below.

## **5.6. OTHER EXECUTIVE DIRECTORS**

Aldo Bottini Bongrani is also an Executive Director, holding the position of Director of Sales.

## **5.7. INDEPENDENT DIRECTORS**

Pursuant to the joint provisions of article 147-ter, comma 4 and 148, comma 3 TUF and in compliance with article 2.2.3, comma 3, paragraph k) of the Stock Market Rules and art. 3 of the Civil Code, the Board of Directors currently includes two Independent Directors (Giancarlo Maccarini and Fabio Fada) who:

- (i) do not control the Company, either directly or indirectly, through any subsidiary, trust company or other person, nor are in a position to exercise on the Company a significant influence;
- (ii) do not participate, either directly or indirectly, to any Shareholders' agreement through which one or more subjects can exercise control or a significant influence on the Company;
- (iii) are not or have been, over the past three financial years, a top level representative of the Company or of any of its strategically important subsidiaries, or of a company or entity that, either directly or through a Shareholders' agreement, controls the Company or has a significant influence over the same;
- (iv) directly or indirectly (e.g. through subsidiaries in which it has an important role as indicated in paragraph (iii) above, or as partner of a professional firm or a consulting firm) has not, or has not had over the previous year, any significant business, financial or professional relationship (also pursuant article IA.2.13.6 of the Instructions to the Stock Market Rules) with either: (a) the Company or any of its subsidiaries, or any of its top level representatives as indicated in paragraph (iii) above; (b) a company or entity that, either directly or through a Shareholders' agreement, controls the Company or, in the case of a company or entity, any of its top level representatives as indicated in paragraph (iii) above;
- (v) notwithstanding the content of paragraph (iv) above, do not entertain work relationships, either directly subordinate or as an external consultant, or any other relationship involving remuneration such as to compromise the independence of the same: (a) with the Issuer, its subsidiaries or parent companies, or companies under joint control with others; (b) with the Directors of the Company; (c) with close relatives up to the fourth degree of the Directors of the Company described in paragraph (a) above;
- (vi) does not and has not received, over the past three financial years, from the Company or any of its subsidiaries, any remuneration of significance in addition to the fixed indemnity received as Independent Director, including the inclusion in stock option plans and phantom stock option plans;
- (vii) have not been Directors of the Company for more than nine years out of the last twelve;
- (viii) do not cover the position of Executive Director in any other company in which another Executive Director of the Company holds a position as director;
- (ix) are not partners or directors of a company or entity that is part of the network of the independent auditors of the Company;

- (x) are not a close relative of any person that is in any of the situations described in the paragraphs above and are not, in any case, either a spouse, relative or relations up to the fourth degree of any Director of the Company, its subsidiaries, parent companies or companies under its joint control.

The Board assesses the existence and continuation of requisites described above, based on information that parties involved are required to supply under their responsibility, or of any other information otherwise available to the Board.

The possession of prerequisites for independence pursuant to article 3 of the Civil Code and of comma 3, paragraphs b) and c) of article 148 of TUF of Independent Directors currently in office were verified by the Board at its meeting of May 13, 2010 upon their appointment.

In making the above assessment the Board applied all the criteria provided for in the Civil Code.

At its meeting of May 13, 2010, the Board of Statutory Auditors acknowledged that the criteria and procedures used by the Board of Directors in assessing requisites for independence were applied in a correct manner.

Independent Directors currently serving on the Board regularly attended all Board meetings held in the year.

The two Independent Directors currently serving on the Board met twice informally in the year without any other Director present.

## **5.8. LEAD INDEPENDENT DIRECTOR**

As provided for in the Civil Code and there applying conditions set forth therein, on April 28, 2009, the Board appointed Director Fabio Fada as *lead independent director*, to whom the Non-executive Directors, and especially Independent Directors, shall refer for coordination of their action.

The *lead independent director*, being an Independent Director competent in the field of accounting and finance, covers also the position of Chairman of the Remuneration Committee and Chairman of the Internal Control Committee.

## **6. HANDLING OF COMPANY INFORMATION**

The communication to the public of documents and information regarding the Company is regulated by an internal procedure that aims at preventing a selective, incomplete or inadequate flow of information. Press releases required by currently applicable regulations that may, because of their nature, influence significantly the price of financial instruments, must be approved by the Chairman or Vice Chairman, or, in their absence or impediment, including temporary, by the General Manager or one of the Directors having legal representation or powers to sign for the Company. Relationships with the press, supervising Authorities, Investors and the financial community, are kept and managed by the *Investor Relations* department of the Company.

The Board of Directors oversees also the adoption of internal procedures aimed at ensuring an information flow within the Group that allows the full compliance of disclosure requirements with regard to relevant corporate events occurring in the sphere of activity of its subsidiaries.

In the meeting held on June 26, 2007, the Board approved the adoption of a “**Procedure for the publication of privileged information**” prepared in compliance with articles 114 and 181 of TUF.

*(i) Register of persons having access to privileged information*

With particular reference to the requirement for listed companies, persons who control the same and persons who act in their name or on their behalf, to create and make operational a register of persons who have access to privileged information, as per article 115-*bes* of TUF, and articles 152-*bis* and following of the Regulations for Listed Companies (the “**Register**”), the Board of the Company resolved at its meeting of March 27, 2006 to institute the Register and approved the “Procedure for the management of the Register of persons having access to privileged information”.

At the meeting held on June 26, 2007, the Board resolved the adoption of a “**Procedure for the management of the Register of persons having access to privileged information**”. This Procedure sets the guidelines for the circulation of privileged information before their disclosure to the public.

*(ii) Internal Dealing*

With regard to the management of disclosure requirements deriving from the application of new *Internal Dealing* regulations in compliance with article 114, comma 7 of TUF, and articles 152-*sexies*, 152-*septies* and 152-*octies* of Listed Companies Regulations, coming into effect for listed companies from April 1, 2006, the Board of Directors of the Company resolved on March 27, 2006 to adopt the Procedure for the compliance with *Internal Dealing* regulations (the “**Internal Dealing Procedure**”). Said Procedure is aimed at ensuring the highest transparency and homogeneity of the flow of information to the market.

On March 28, 2007, the Board approved the new text for the Internal Dealing Procedure.

The detail of operations carried out in the year that require communications pursuant to Internal Dealing regulations, is available on the Company’s institutional site at [www.cembre.it](http://www.cembre.it), in the *Investor Relations – Internal Dealing* section.

## **7. BOARD OF DIRECTORS’ INTERNAL COMMITTEES**

The Board of Directors appointed the Remuneration Committee, the Internal Control Committee and the Committee for Related Parties Dealing.

## **8. APPOINTMENT COMMITTEE**

In view of the dimensions and the organizational structure of the Company, the Board of Directors did not deem it necessary at the present stage to create a committee to appoint Directors. In particular, the presence of a controlling shareholder ensures the presentation of candidates to the position of Director. Customarily, candidates to the position of Executive Director are persons that have matured a consolidated experience in the sector in which the Company operates of direct knowledge of the same.

## **9. REMUNERATION COMMITTEE**

Based on the provisions of article 2.2.3, comma 3, paragraph m) of Rules for Listed Companies applicable to companies listed in the *STAR* segment of the market and in compliance with the Civil Code, the Company appointed an internal Remuneration Committee.

**Composition and functioning of the Remuneration Committee (*ex art. 123-bis, comma 2, par. d), TUF*)**

The Committee was appointed originally with resolution of the Board on November 14, 2005 and subsequently, in its current composition, with resolution of the Board of April 28, 2009.

The Committee is made up by three members, exclusively non-executive Directors and prevalently Independent Directors, and namely by:

- Fabio Fada – Independent Director – acting as Chairman;
- Giancarlo Maccarini – Independent Director;
- Giovanni De Vecchi – Non-executive Director.

At its meeting held on May 14, 2009, the Remuneration Committee, keeping into account remunerations of other companies listed in the STAR segment of the stock market and of information reported in the SpencerStuart Board Index published by SpencerStuart Italia on Board of Directors of Italian Companies, expressed a favorable opinion on the adequacy of the remuneration of the Company's Managing Directors. In formulating the above opinion, the Chairman of the Committee also highlighted that the fact that Managing Directors of the Company do not benefit from incentives contingent on the performance of the Company is not relevant as they have consistent stakes in the Company and have therefore an interest in creating value for Shareholders.

The duration of the meeting was about thirty minutes and regular minutes were kept.

In the year it was not deemed necessary to convene the Remuneration Committee as Directors' compensation remained unchanged.

On April 27, 2010, the Ordinary Shareholders' Meeting resolved to reduce the compensation of the Board of Directors as a whole in view of the reduction of the same from 8 to 7 members. The Board of Directors at its meeting of May 13, 2010 determined individual compensation of Directors, leaving it unchanged with respect to its previous resolution at the meeting of April 28, 2009. It was not deemed necessary to request an opinion of the Remuneration Committee as no change to the compensation of Managing Directors was resolved.

**Functions of the Remuneration Committee:**

The Remuneration Committee has only a prompting function. In particular, the committee is responsible for formulating proposals to the Board in the absence of the persons directly involved, as to the remuneration, including possible stock option plans and share-based benefit plans, of Managing Directors and of those Directors holding particular positions, in addition to, upon indication of the Managing Directors, setting criteria for the remuneration of the Company's top management. Managing Directors are in fact ultimately responsible for setting policies and remuneration levels of top management.

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The Remuneration Committee has no expense budget as it makes use in carrying out its task of means and structures of the Company.



## 10. REMUNERATION OF DIRECTORS

The remuneration of Directors is set by the Shareholders' Meeting. Managing Directors have no incentives linked to the results of the Company as they hold relevant stakes in the Company and have therefore an interest in generating value for Shareholders. Pursuant to article 21, second comma, of the By-laws, the Shareholders' Meeting may determine an overall compensation for all Directors, including those holding particular proxies, and can moreover assign compensation, in full or in part, in the form of participation in the profit of the Company or the assignment of rights to underwrite shares of the Company to be issued at a pre-set price.

No share-based remuneration plan currently exists in favor of Executive Directors and top managers holding strategic positions in the Company.

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The remuneration of non-executive Directors is not linked to the economic performance of the Company.

Non-executive Directors do not benefit from share-based incentive plans.

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Emoluments paid to Directors in the year are as follows †:

Director	Compensation for position (€)	Non-monetary benefits <sup>(1)</sup>	Bonuses and other incentives	Other compensation (€)	Total (€)
Carlo Rosani	34,932				34,932
Giovanni Rosani	148,402	3,495		9,000 (2)	160,897
Anna Maria Onofri	150,300	2,676			152,976
Sara Rosani	32,298	2,519		4,982 (3)	39,799
Giovanni De Vecchi	32,398	2,051 (4)		24,000 (2)	58,449
Aldo Bottini Bongrani	32,298	3,231		189,214 (3)	224,743
Fabio Fada	33,578				33,578
Giancarlo Maccarini	32,298				32,298

(1) These are fringe benefits consisting in the use of a car and insurance policies

(2) Compensation for positions in subsidiaries

(3) Gross retribution for direct employment

(4) Non-monetary benefit granted by General Marking S.r.l.

On April 27, 2010 the Shareholders' Meeting resolved to reduce the compensation for the Board of Directors following the reduction in the number of its members from 8 to 7. The Board of Directors of May 13, 2010 assigned individual compensation of directors, leaving it unchanged from its resolution of April 28, 2009. It was not deemed necessary to request an opinion from the Remuneration Committee as there has been non change in the compensation of Managing Directors.

The Director of Sales, Aldo Bottini Bongrani, receives part of his compensation as a variable, set discretionally by the Chairman, in agreement with appointed directors, based on the sales

† As resulting from the draft financial statements deposited with the present Report.

performance and their profitability.

At the meeting of March 25, 2008, the Board of Directors verified that the management of the Company does not include managers with strategic responsibilities, as all decisions having a strategic relevance are taken by the Chairman of the Board and/or the Managing Director, in compliance with powers reserved to the Board of Directors. In this respect, the top management of the Group has not changed since such date.

## **11. INTERNAL CONTROL COMMITTEE**

The Board appointed an Internal Control Committee among its members.

The Internal Control Committee was originally created with resolution of the Board dated May 14, 2004, pursuant to article 2.2.3, comma 3, paragraph 1) of the Consob Issuers' Regulation. Subsequently to the appointment of the new Board of Directors, it was appointed with resolution of the Board on April 28, 2009.

In 2010, the Internal Control Committee was made up by three non-executive Directors, the majority of which are Independent Directors:

- Fabio Fada – Independent Director – acting as Chairman;
- Giancarlo Maccarini - Independent Director;
- Giovanni De Vecchi - Non-executive Director.

The Chairman of the Internal Control Committee, Fabio Fada, has accounting and financial experience, as lecturing professor of Financial Statement Analysis and International Accounting Principles at the Economics Department of the University of Brescia and Registered Accountant (Public Accountant Register no. 79351), that is deemed adequate by the Board at the time of the appointment.

In the course of the year, the Internal Control Committee met 5 (five) times, on February 2, March 1, May 3, July 29 and October 29, with all members attending.

The Chairman of the Board of Statutory Auditors attended all meetings of the Committee. Participation to the meetings included at times Managing Director Giovanni Rosani, representatives of the Independent Auditors, of company Protiviti S.r.l. in charge of internal audit, and, upon invitation of the Committee, Claudio Bornati, in his capacity as Manager responsible for the preparation of the Company's accounts, whose participation is deemed from time to time useful for the purposes of the discussion.

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### **Responsibilities attributed to the Internal Control Committee**

The Internal Control Committee has a consulting and prompting function for the Board of Directors, and in particular those of:

- (i) assisting the Board of Directors in setting of guidelines for the internal control system;
- (ii) assisting the Board of Directors in verifying periodically the adequacy and the effective functioning of the internal control system;
- (iii) assisting the Board of Directors in drafting the Report on Corporate Governance with regard to the section relating to internal control;

- (iv) evaluating, together with the Manager responsible for the preparation of the Company's accounts and the Independent Auditors, the correct application of accounting principles and, in the case of groups, their consistency for the preparation of the Consolidated Financial Statements;
- (v) upon request of the Executive Director appointed for the purpose, expressing opinions on specific aspects inherent to the identification of main risks involving the Company and the design, implementation and management of the internal control system;
- (vi) reviewing the action plan prepared by persons in charge of internal control, in addition to the periodical reports prepared by the same;
- (vii) reviewing the action plan prepared for the audit and comments contained in the auditing report of the Independent Auditors and the possible accompanying suggestions letter;
- (viii) monitoring the efficacy of the accounting audit process;
- (ix) carrying out the further tasks that may be attributed to it by the Board of Directors;
- (x) report to the Board of Directors, at least half yearly, upon the approval of the annual report and half-year report, on activities carried out and on the adequacy of the internal control system.

The Internal Audit Committee is required to carry out its tasks in coordination with the Board of Statutory Auditors, the Manager in charge of Internal Control and the Managing Director holding proxies for internal control.

Within individual functions attributed to it, in the year the Internal Control Committee verified the internal control system with particular regard to:

- progress made in the action plan of the Manager in charge of Internal Control;
- progress made in the action plan for 2009-2011 audit activities;
- the update of the Organizational model as per Legislative Decree 231/01;
- the update of risk analysis activities;
- the evaluation and monitoring of the adequacy of administrative and accounting procedures as per Law 262/05;
- the verification of protocols as per Legislative Decree 231/01;
- the evaluation, together with the Manager in charge of preparing the Company's accounts, of the correct application of accounting principles and their consistency for the purposes of preparing the consolidated financial statements.

At the Board meetings of March 15 and August 26, 2010, the Committee reported on the activity carried out and the state of the internal control system.

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Minutes of Internal Control Committee meetings were regularly kept.

The average duration of meetings was about two hours.

In carrying out its tasks, the Internal Control Committee is entitled to access information and departments of the Company that may be necessary for the tasks assigned, in addition to making use of external consultants, at the conditions set by the Board of Directors.

The Internal Control Committee has no expense budget as it makes use in carrying out its task of means and structures of the Company.

## 12. INTERNAL CONTROL SYSTEM

The Board defines guidelines for the internal control system, intended as a set of rules aimed at monitoring the correct conduct of the Company, the reliability of financial information, the respect of laws and regulations, and the safeguard of the Company's assets.

To such end, the Board:

- (i) oversees the prevention and management of risks incurred by the Company and the Group through the setting of guidelines for the internal control system aimed at ensuring that these risks are correctly identified and adequately measured, monitored, managed and evaluated, also in relation to the safeguard of company assets and the correct conduct of the Company;
- (ii) verifies periodically, and in any case at least annually, the adequacy, efficacy and effective functioning of the internal control system.

In fulfilling the above tasks, the Board avails itself of the collaboration of a Managing Director in charge of the Internal Control System (the "Appointed Director"), whose tasks are listed in paragraph 12.1, and of an Internal Control Committee created within the Board, whose tasks are indicated in paragraph 12.

In line with international models and best practices (COSO Report), Cembre's internal control system is based on the following key elements:

- a) **Control environment:** it is the environment in which individuals operate and it represents the internal control culture that permeates the organization. It is made up by the following elements: corporate organizational chart, system of proxies, organizational rules, procedure for disclosure to the public of privileged information, procedure for relevant transactions with related parties, procedure for the compliance with internal dealing requirements, organization, management and control model as per Legislative Decree 231/2001, inclusive of code of conduct, of which it is an integral part.
- b) **Identification and assessment of risks:** it is the process aimed at ensuring the identification, analysis and management of main risks faced by the Company. The activity is characterized by the identification of main corporate risks, subdivided between risks pertaining to the industry in general, financial risks, risks relating to operations, etc. Particular attention is dedicated to the analysis of administrative and accounting risks, relating to financial reporting, and of the monitoring of risks identified.
- c) **Control activity:** it is the set of control rules and procedures put in place to allow the monitoring and control of corporate risks to reduce them to an acceptable level and ensure the achievement of corporate objectives. It is made up by the following elements:
  - a. *Administrative and accounting control procedures:* set of corporate procedures for the preparation and disclosure of accounting information (e.g. Group accounting manual, related administrative and accounting procedures and in particular financial statements and reporting in general, managerial accounting forms);
  - b. *Corporate procedures for the avoidance and monitoring of operating risks, such as:* ISO 9000 quality control system, ISO 14000 environmental certification system, etc.
- d) **Monitoring and reporting:** is the process created to ensure the accurate and timely collection and communication of information, in addition to the set of activities

necessary to verify and evaluate periodically the adequacy, operational efficiency and efficacy of internal controls. It currently focuses on the periodical valuation and reporting process regarding the adequacy and effective application of procedures and controls on financial reporting, such as to allow the Managing Director and the person in charge to issue the attestations and statements required pursuant to article 154-bis, TUF.

### **Main characteristics of the risk management and internal control systems in connection with financial reporting**

#### *- Foreword*

As an integral part of its internal control system, Cembre defined its own Accounting Control Model in which rules for the management of risk and internal control relating to financial reporting are set forth.

The system is aimed at ensuring the credibility, accuracy, reliability and timeliness of financial information.

#### *- Organization of the risk management and internal control systems in connection with financial reporting*

Based on the content of the Accounting Control Model, the main characteristics of the Internal control system in connection with financial reporting are described below:

#### **a) Phases of the risk management and internal control system regarding the financial reporting process**

##### **a1. Identification and evaluation of risks on financial reporting**

The risk assessment process relating to accounting and financial reporting is carried out half-yearly by the Director in charge of the Internal Control System with the help of the person in charge of Internal Control (and where necessary with the support of the internal auditors) and shared with the Managing Director.

The risk assessment process consists of the following activities:

- **analysis and selection of relevant accounting information** disclosed to the market (analysis of last statutory and consolidated annual report or last half-year report available, to identify main risk areas and related relevant processes);
- **identification of relevant subsidiaries and significant administrative and accounting areas**, for each item in the consolidated financial statements, based on set quantitative criteria;
- **identification and valuation of risks inherent to** significant administrative and accounting areas in addition to the related processes and flows upstream from the same, based on the analysis of qualitative and quantitative indicators (including the risk of errors that may affect to a relevant degree financial reporting);
- **communication**, to the sectors involved, of the **target areas** for which it is necessary to prepare and/or update administrative and accounting procedures.

##### **a2. Creation of controls on risks identified**

Cembre devised a system of administrative and accounting procedures to comply

with requirements regarding the drafting of accounting documents pursuant to article 154-*bis*, TUF, introduced by Law 262, December 28, 2005.

The set of procedures defines “Matrices for the administrative and accounting control”, describing existing control procedures for each administrative and accounting process selected through periodical risk assessments, indicating, among other things:

- objective of control in connection with financial reporting;
- description of current control;
- person in charge of the control;
- frequency.

The matrix indicates key checks: these are controls whose absence (or non adequacy) can represent a deficiency in the administrative and accounting internal control system. Controls described in the matrices can be considered an integral part of the Group’s administrative and accounting internal control system. These matrices must be used as an instrument for the selection of controls applied in the periodical assessments of the administrative and accounting internal control system. Matrices are continuously updated by the persons in charge of Internal Control who communicate to the Director in charge of the Internal Control any relevant change occurred, sharing decisions on the necessary update to be carried out.

A minimum set of controls based on *Process Level Matrix Template* (PLM) and elaborated on the control matrices applied for the parent company were set for subsidiaries. These will be used as a documentation and evaluation instrument for the respective administrative and accounting internal control system.

a3. Evaluation of controls for risks identified:

The verification and periodical evaluation of the adequacy, operational effectiveness and efficacy of administrative and accounting controls is carried out at three distinct levels:

- **Continuous supervision**, on the part of persons in charge of the supervision or the Company, applicable to the operations of the Company (e.g. verification of consistency within the Group’s administrative and accounting procedures; verification of the update of matrices for administrative and accounting controls used; information provided to the Director of accounting and financial control regarding periodical verifications carried out on the update of procedures and of matrices, etc.).
- **Independent testing**, carried out by the Director Responsible and the person in charge of Internal Audit (supported as necessary by the Internal Audit Department) and aimed at evaluating the adequacy of the design and the efficient operation of controls carried out. Testing activity is carried out on the basis of the General Audit Plan prepared by the Internal Audit Department, reviewed and approved by the Director responsible for Internal Audit and the Managing Director.
- **Monitoring**, carried out by the Director responsible for Internal Audit on the basis of information provided by the Internal Audit Department, to supervise the update of the set of procedures and the actual implementation of controls identified through administrative and accounting procedures.

The result of verifications described above regarding the adequacy and operating effectiveness

of the accounting control system is communicated by the Director responsible for Internal Audit to the Board through a continuous flow of information.

#### **b) Roles and positions involved**

The Organization, Management and Control Model describes the roles and responsibilities of persons involved to various degrees in the drafting and/or control of financial reporting of the Cembre Group.

In particular we list below main responsibilities of persons involved in supervising the correct functioning of the system:

- the **Board of Directors** is responsible for appointing the Manager in charge of drafting the Company's accounts and ensuring that the same possesses adequate requisites (in terms of authority, professional profile and independence), powers and means to carry out the tasks assigned; promoting a periodical flow of information through which the Manager in charge of drafting the Company's accounts may report on the results of activities carried out and possible critical factors emerged, with the aim of sharing decisions on action to be taken to overcome critical factors. In carrying out its task, the Board of Directors is assisted by the **Internal Control Committee** that has both a consulting and prompting function, with reference also to the internal administrative and accounting control system;
- the **Managing Director** is responsible for implementing and monitoring the correct application of the accounting control model and of the related Internal Control System, with particular reference to the administrative and accounting procedures; for validating, in agreement with the Appointed Manager, the results of the periodical risk assessment activity; for evaluating the efficacy of procedures implemented, keeping into account information gathered by the Appointed Manager; for reviewing all other financial information disclosed to the market (among which, in particular, quarterly reports);
- the **Manager in charge of drafting the Company's accounts and records** is responsible, in addition to the responsibilities assumed jointly with the Managing Director, to evaluate and monitor the level of adequacy and operative efficiency of the internal administrative and accounting control system, through adequate information gathering.
- the **Person in charge of Internal Control** (with the support of the Internal Audit Department), supports the Managing Director and the Appointed Manager in evaluating the stage of formalization and update of procedures and matrices for the administrative and accounting controls; it is also responsible for providing advice on control principles, reference methods and models; for carrying out independent control, analysis and supervision, both at the central and local level, presenting results to the Managing Director, the Appointed Manager and to management, providing suggestions as to how to devise corrective action and monitoring the implementation of corrective action defined by management in the context of analysis and verifications made, through successive follow-up phases.

Persons in charge of Internal Control and of subsidiaries that are involved in the drafting and management of accounting and financial information, are responsible for the correct functioning and update of the accounting control system limited to all processes and flows under their responsibility, in agreement with the Appointed Manager.

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On November 11, 2010 the Internal Control Committee reported on its activity, the results of verifications carried out and the functioning of the internal control system, highlighting how the latter resulted appropriate in view of the dimensions and organizational and operating structure of the Company.

### **12.1. EXECUTIVE DIRECTOR IN CHARGE OF THE INTERNAL CONTROL SYSTEM**

On April 28, 2009, the Board appointed Managing Director Giovanni Rosani as Executive Director in charge of Internal Control.

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The Executive Director in charge of overseeing the Internal Control system:

(i) carried out the identification of main risks to which the Company is typically exposed, taking into account its characteristics and those of its subsidiaries, in addition to the sector in which they operate;

(ii) implemented – through the design, management and monitoring of the internal control system – the guidelines set by the Board of Directors, reporting on its activity, where required, to the Board. To carry out its task, the Appointed Directors made use of the cooperation of the person in charge of Internal Control.

### **12.2. PERSON IN CHARGE OF INTERNAL CONTROL**

On March 25, 2002 the Board appointed Giovanni De Vecchi as person in charge of Internal Control with the task of verifying that the internal control system is at all times adequate, fully operational and functioning.

No remuneration was set for the position of person in charge of Internal Control.

The person in charge of Internal Control is not responsible for any operational area and is not hierarchically dependent from any of the managers in charge of any operating areas, including administration and finance.

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The person in charge of Internal Control:

- had direct access to all information deemed useful to perform his or her duties;
- reported on the activity carried out to the Committee for Internal Control, whose meetings are attended regularly by the Chairman of the Board of Statutory Auditors;
- reported on his or her activity also to the Executive Director in charge of the Internal Control System.

The person in charge of Internal Control has no expense budget as in carrying out its task he or she makes use of means and structures of the Company.

The person in charge of Internal Control has the following tasks:

(a) assisting the Appointed Director in fulfilling his task of overseeing the Internal Control System;

(b) report on his or her activities at least quarterly to the Appointed Director and at least half-yearly to the Internal Control Committee and the Board of Statutory Auditors;



(c) participate to the meetings of the Board and the Internal Control Committee to which he or she is invited to attend;

(d) inform without delay the Appointed Director, the Board and the Internal Control Committee whenever, in carrying out the mentioned verifications, there should emerge risks for the Company or elements which can have a negative effect on the same;

(e) verify that the internal control system is at all times adequate, fully operational and functioning. In performing his or her duties, the person in charge of Internal Control has access to all information needed for the task and disposes of adequate means.

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The Company created an internal audit position that reports directly to the Representative Bodies and whose action plan is set jointly with the person in charge of Internal Control, with the cooperation of the Manager in charge of drafting the Company's accounts for whose opinion it also submits the action plan and the results of controls carried out.

The Company assigned to an independent consultant – company Protiviti Srl – that has no corporate links with the Company, the internal audit function, so as to enjoy the professional competency and the highly specialized services of the same.

### **12.3. ORGANIZATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001**

On March 25, 2008, the Company adopted a first version of the Organization, Management and Control Model (the “Model”) aiming at preventing crimes contemplated by Legislative Decree 231/2001 as subsequently amended, in addition to adopting the Guidelines issued by the Italian Industrial Association (Confindustria).

The Model was adopted by the respective Boards of all Italian companies of the Group limited to the respective relevant areas. Any amendment and integration made by the Company to its adopted Model is communicated without delay to other Italian companies in the Group who see to their adoption, where applicable, in the respective areas of interest, with a specific resolution of the respective Board.

The exemption from administrative responsibilities provides for the mandatory creation of a Monitoring Body within the Company, having autonomous powers of initiative and control, responsible for verifying the Model execution and observance, proposing any possible update whenever appropriate.

The Monitoring Body, in office until the approval of the Financial Statements at December 31, 2011, is made up by Fabio Fada (Independent Director), Giancarlo Maccarini (Independent Director), and Giovanni De Vecchi (Non-executive Director).

Crimes contemplated by Legislative Decree 231/2001 on which the Company concentrated its attention due to the specific sector in which it operates (as described in the Model) are: crimes committed in relationships with the public administration milieu (article 25) and patrimonial crimes (article 24); crimes committed in the field of data management (article 24*bis*); corporate crimes (25*ter*); crimes relating to falsification of money, credit cards and stamps, in addition to identification documents (art. 25*bis*), commerce related abuses (art. 25*bis* 1), corporate crimes (25 *ter*), market related abuses (article 25 *sexies*); negligent manslaughter and personal injuries, either serious or very serious, committed by violating workplace safety laws, including hygiene and health related, (article 25*septies*); handling of stolen assets, recycling and reinvestment of ill obtained money, goods or profits (article 25*octies*), copyright infringements – induction to

render or not render false witness (art. 25 *novies*), of said Law. The Company has consequently undertaken to strengthen its internal control system with the aim of preventing such crimes and to integrate its Code of Conduct with specific new norms.

The Model contains a number of Protocols that summarize controls currently carried out by Cembre to monitor and limit risks relating to crimes. Protocols are communicated to all employees also through specific training courses.

The Model provides for sanctions in case of violations, as a fundamental requisite for the same.

In the year, the Board of Directors, supported by the Internal Control Committee and the Monitoring Body updated the Model and Protocols contained in the same, in addition to verifying their effectiveness. In particular:

- at the meeting of November 11, 2010 the new “Protocol for the management of trademarks and patents” protocol was introduced. The Model and its enclosures were updated and/or modified to take into account new crimes introduced by Legislative Decree 231/01. In view of experience gained, moreover, overall changes to the Model, the Code of Conduct and all Protocols were made with the aim of making them more effective and in line with the Company’s operations;
- the Monitoring Body, supported by the internal audit function, planned and carried out specific verifications on the correct application of Protocols contained in the Model.

Protocols were also verified with the assistance of advisor Protiviti S.r.l. In particular protocols “Participation in contract awarding tenders/commercial negotiations with public sector customers”, “Management of gifts, gratuities and sponsoring”, “Financial and monetary flows”, “Selection, hiring and management of personnel”, “Consulting and professional services” were tested. The result of the test was communicated to the Control Committee at the meetings held on May 3 and July 29, 2010.

In the performance of its current duties, the Monitoring Body is authorized to spend up to €10,000.00 per individual transaction, with no need for authorization, and is subject to authorization by the Board for higher amounts.

The Company has adopted a Code of Conduct, updated at the Board meeting of November 11, 2010. The Code of Conduct constitutes an integral part of the Organization, Management and Control Model.

The Model and the Code of Conduct are available for consultation on the Company’s institutional site [www.cembre.it](http://www.cembre.it) under the Cembre Group section.

#### **12.4. INDEPENDENT AUDITORS**

The accounts of the parent company and the consolidated accounts are audited by PricewaterhouseCoopers S.p.a.

The appointment of PricewaterhouseCoopers for financial years 2009-2017 was made by the Shareholders’ Meeting on April 28, 2009 upon proposal of the Board of Statutory Auditors.

#### **12.5. MANAGER IN CHARGE OF DRAFTING THE ACCOUNTING AND CORPORATE RECORDS**

The manager in charge of drafting the accounting and corporate records of the Company until revoked is Claudio Bornati, employed by the Company as Director of Administration, Finance

and Control, appointed by the Board on June 26, 2007.

Pursuant to article 16.7 of the By-laws, the manager in charge of drafting the accounting and corporate records must possess, in addition to the requisites of honorability prescribed by current regulations for those who cover administrative and directive positions, requisites of professionalism characterized by specific competence in administration and accounting. Such competence, to be ascertained by the Board of Directors, must be acquired through work experience in an adequate position of responsibility for an appropriate period of time.

The manager in charge of drafting the accounting and corporate records is appointed by the Board of Directors, prior mandatory advise of the Board of Statutory Auditors.

Upon the appointment, the Board endowed the Manager in charge of drafting the accounting and corporate records with adequate powers and means to fulfil his assignment. In particular, he is therefore entitled to:

- access all the information deemed necessary to fulfil his tasks, both within the Company and other Group companies, with the authority to view all documents relating to the drafting of the accounting and corporate records of the Company and of other Group companies, with further authority to request clarifications to all subjects involved in the formation of the accounting records of the Company and of all other Group companies. It is moreover provided that the Managing Director and the managers of the Company and of other Group companies are required to inform without delay and to keep informed at all times the manager in charge of drafting the accounting and corporate records of any deed, fact or event that may influence, also potentially, the accounting records mentioned above;
- attending, without participating in, Board meetings;
- dialog with all administrative and control organs and with the Internal Control Committee, pursuant to paragraph 8.C.3 of the Code;
- approve corporate procedures, when these have an impact on the financial statements, the consolidated financial statements or documents subject to the issue of a statement attesting their truthfulness;
- participate in the development of information systems that have an impact on the economic and financial situation of the Company;
- set up an adequate (in terms of number and professional level of resources) structure to carry out his tasks, using available internal resources, and, where necessary, outsourcing them;
- employ internal audit resources to map processes and in carrying out specific controls, in a client/supplier environment, and, in the event resources needed are not present internally, the power to outsource them;
- use for control purposes the Company's information systems.

In the performance of his current duties, the manager in charge of drafting the accounting and corporate records is authorized to spend up to €10,000.00 per individual transaction, with no need for authorization, and is subject to authorization by the Board for higher amounts.

### **13. INTEREST OF THE DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES**

On November 11, 2010, the Board of Directors, having acknowledged the opinion in favor issued by the Board of Statutory Auditors and the Independent Directors, approved unanimously, with the abstention on each vote of interested parties, the new procedure for dealing with related parties (the “**Related Parties Procedure**”) adopted pursuant to the

Regulation for “Related Parties Dealing” issued by Consob with Resolution no. 17221 of March 12, 2010, as subsequently amended (the “**Regulation**”), implementing provisions of article 2391*bis* of the Civil Code and articles 113-*ter*, 114, 115 and 154-*ter*, TUF, and in line with the related guidelines on the matter contained in the Code.

The new Related Parties Procedure replaced the previous procedure adopted on the basis of Application Criteria 1.C.1. par. f) of the Civil Code. For a description of the former procedure we refer to the Report on Corporate Governance for 2009.

The Company applies the Related Parties Procedure keeping into account Consob’s Communication no. DEM/10078683 published on September 24, 2010 and containing “Guidelines and orientations for the application of the Regulation on Related Parties Dealing adopted with Resolution no. 17221 of March 12, 2010, as subsequently amended”.

The Related Parties Procedure regulates the identification, approval and management of transactions with related parties. In particular, the Procedure:

- regulates the methods for the identification of related parties, defining procedures and timing for the drafting and update of the list of related parties, naming the corporate structures in charge;
- sets the rules for the identification of transactions with related parties prior to their conclusion;
- regulates the procedures for the carrying out of transactions with related parties by the Company, also through its subsidiaries as defined by article 2359 of the Civil Code, or any other company that is subject to its direction or coordination;
- it sets the procedures and timing for the compliance with disclosure requirements with respect to corporate organs and the public.

The Related Parties Procedure and the related enclosures may be consulted on the Company’s institutional Internet site [www.cembre.it](http://www.cembre.it) in the *Investor relations* section.

Pursuant to paragraph 5 of the Related Parties Procedure, Directors who have a vested interest in a transaction must provide in a timely manner full information regarding the existence of a vested interest and the circumstances of the same to the Board, evaluating on a case by case basis the opportunity of leaving the meeting at the time at which the resolution is taken and to abstain from voting on the matter. In case the vested interest is held by the Managing Director, the same abstains from carrying out the operation. In such cases, the resolutions of the Board of Directors will motivate adequately the reasons and interest of the Company to carry out the operation.

### **13.1 COMMITTEE FOR RELATED PARTIES DEALING**

At its meeting of November 11, 2010, the Board of Directors resolved to create within itself a Committee for Related Parties Dealing, made up by at least three non-executive Directors, the majority of which independent, attributing to it all the responsibilities provided for by the Related Parties Procedure and, in particular, the task of providing the Board, prior to the vote on a transaction with a related party, with a motivated non-binding opinion on the interest of the Company in the conclusion of the transaction and the correctness of the related operations.

The Committee for Related Parties Dealing is made up by:

- Fabio Fada – Independent Director – acting as Chairman;
- Giancarlo Maccarini – Independent Director;
- Giovanni De Vecchi – Non-executive Director.

## 14. APPOINTMENT OF STATUTORY AUDITORS

The appointment and replacement of Statutory Auditors is regulated by currently applicable norms and by article 23 of the Company's By-laws. The provisions of the By-Laws that regulate the appointment of the Board of Statutory Auditors ensure compliance with Legislative Decree no. 27 dated January 27, 2010 that implements EU Directive 2007/36 on the exercise of some rights of shareholders of listed companies. Amendments to the By-laws to comply with said regulation have been approved by the Board of Directors on November 11, 2010.

Pursuant to article 23 of the By-laws, lists submitted by Shareholders must be deposited at the Company's registered office at least twenty five days prior to the day of the first call of meeting.

The appointment of Statutory Auditors is based on lists submitted by the Shareholders. No Shareholder, or Shareholders participating in a Shareholders' agreement relevant pursuant to article 122, TUF, as well as the parent company, any subsidiary or company under joint control pursuant to article 93, TUF, can submit or concur to submit more than one list, nor vote for more than one list submitted.

Lists may be submitted only by Shareholders who represent, either individually or jointly with other Shareholders, at least 2.5% (two point five percent) of voting rights at any Shareholders' Meeting, or any other percentage limit established by other laws and regulations. Through Regulation no.17633 of January 26, 2010, Consob set at 2.5% of voting rights the quorum for submitting lists of candidates to the position of Director of the Company for the financial year ended December 31, 2010.

Statutory Auditors are appointed as follows:

- a) two Permanent Statutory Auditors and one Substitute Statutory Auditor are drawn from the most voted list based on the order in which they are listed;
- b) one Permanent Statutory Auditor and one Substitute Statutory Auditor are drawn from the second voted list that is not connected, either directly or indirectly, in any way with any of the Shareholders that submitted the most voted list, based on the order in which they are listed;

In case of even vote between two or more lists, Statutory Auditors will be appointed by seniority.

The Chairman of the Board of Statutory Auditors shall be appointed pursuant to applicable rules and regulations.

The above provision regarding the appointment of Statutory Auditors do not apply to Shareholders' Meetings for which a single list is submitted or a single list is voted upon. In such cases the Shareholders' Meeting resolves on simple majority.

In case, at the expiration of the term for the presentation of lists, only one list has been submitted or only lists submitted by Shareholders that are connected in a manner that is relevant pursuant to applicable regulations are deposited, additional lists may be submitted for a term of five days subsequent to the expiration of the first term. In this case the minimum shareholding threshold required for list submission is halved.

At least two Permanent Auditors and at least one Substitute Auditor appointed must be registered accountants who must have exercised the accounting audit profession for at least three years. Statutory Auditors who do not possess the above requisite are chosen among professionals who have had at least three years of experience in:

- (a) management or control, with management appointments in joint stock companies with a capital stock of at least two million euro, or;
- (b) the exercise of professions or university teaching in the field of jurisprudence, economics, finance or technical and scientific subjects, inherent to the production and commerce of electromechanical tools, electric connectors and mechanical products in general, or;
- (c) management positions in public offices or the public administration in the banking, financial

and insurance field, or in any case in the electromechanical sector.

Statutory Auditors are removed from their office in case he/she no longer possesses the requisites set by the By-laws for his/her appointment.

Statutory Auditors may not hold administration and control positions beyond the limits established by applicable laws and regulations. Where it does not result in separation, exceeding these limits constitutes just cause for revocation of the Statutory Auditor.

With no prejudice to other applicable rules and regulations, in the event of replacement of a Statutory Auditor, his/her place will be taken by the Substitute Auditor appointed from the same list as the one it replaces, while in the event of the replacement of the Chairman of the Board of Statutory Auditors, the successor will be chosen from auditors appointed from the list of the replaced Chairman.

## 15. STATUTORY AUDITORS (*ex art. 123-bis, comma 2, par. d), TUF*)

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting on April 28, 2009 based on a sole list submitted by Shareholder Lysne S.p.A., and will remain in office until the Shareholders' Meeting called to approve the financial statements at December 31, 2011.

Professional curricula of Statutory Auditors are deposited at the Company's headquarters and are published on the Company's Internet site at [www.cembre.it](http://www.cembre.it) in the Investor Relations section.

The current Board of Statutory Auditors is composed as follows:

Name	Position	In office since	List	Indip. as per Code	% part. BoSA	Other positions
Guido Astori	Chairman	28/04/2009	M	X	100	9
Leone Scutti	Permanent Statutory Auditor	28/04/2009	M	X	100	19
Andrea Boreatti	Permanent Statutory Auditor	28/04/2009	M	X	100	14
Maria Grazia Lizzini	Substitute Statutory Auditor	28/04/2009	M	X	n.a.	1
Giorgio Astori	Substitute Statutory Auditor	28/04/2009	M	X	n.a.	1

### LEGEND:

**Position:** indicate whether Chairman, Permanent Statutory Auditor or Substitute Statutory Auditor.

**List:** please indicate M/m, if the Statutory Auditor was elected by majority or minority list (art. 144-decies, of Consob Issuers' Regulations)

**Indep.:** please tick if Statutory Auditor can be qualified as independent in compliance with Code criteria: please indicate at foot of table if criteria have been either integrated or modified

**% Part. BoSA.:** please indicate percentage of Statutory Auditors' attendance in Board of Statutory Auditors' meetings (in calculating this percentage, please consider the number of meetings attended vis-à-vis the

**Other positions:** please indicate total of positions covered in the Companies as per Libro V, Titolo V, Capi V, VI e VII (Book V, Charter V, Subpar. V, VI and VII) of the Italian Civil Code. For an update on administrative and control positions held by Statutory Auditors, we refer also to the information published by Consob pursuant to art. 144-quinquiesdecies of Consob Issuers' Regulations on the [www.sai.consob.it](http://www.sai.consob.it) Internet site under *Corporate Boards – Disclosure*.

In 2010, the Board of Statutory Auditors met 8 times. The average duration of meetings was ninety minutes.

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The Board of Statutory Auditors verified the independence of its members at its meeting of May 13, 2010.

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Despite it is deemed appropriate that other Statutory Auditors and the Chairman of the Board of Statutory Auditors be informed in the event one of the Statutory Auditors has, either directly or indirectly, an interest in one of the transactions carried out by the Company, a specific obligation was not imposed.

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Legislative Decree no 39/2010 (“Implementation of EU Directive 2006/43 on annual audit of annual financial statements and consolidated financial statements, modifying EU Directives 78/660 and 83/349 and abrogating EU Directive 84/253”) attributed to the Board of Statutory Auditors the function of committee for internal control and accounting audit (the “**Committee for Internal Control and Accounting Audit**”) and, in particular, monitoring responsibilities on: i) the financial reporting process; ii) the efficacy of internal control, internal audit, where applicable, and risk management systems; iii) certified audit of annual accounts and annual consolidated accounts; and iv) the independence of the independent auditor or independent auditing firm, in particular over matters concerning the rendering of non-audit services to the entity whose accounts are audited by the same.

Further detail on the activity carried out in the year by the Board of Statutory Auditors is provided in the report issued by the same, enclosed in the financial statements.

The Board of Statutory Auditors, in addition to carrying out its customary monitoring role, requested formally through its Chairman, on February 24, 2011, to the Independent Auditors to disclose the nature and entity of possible services other than accounting audit provided to the Company and its subsidiaries by the same Independent Auditors and other connected entities.

The Board of Statutory Auditors, in the performance of its duties, held contacts with the Internal Control Committee through the attendance of its Chairman to all meetings of the Committee.

## 15.1 FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS

Pursuant to article 22 of the By-laws, the Board of Statutory Auditors must meet at least quarterly. The meeting can be held also with participation from several locations through an audio/video connection, provided the following conditions apply, and this fact is recorded in the minutes of the meeting:

- that the Chairman is able to ascertain the identity of persons participating in the meeting and to regulate the meeting;
- that the secretary keeping the minutes is able to adequately perceive the events of the meeting for which the minutes are kept;
- that the persons convened are allowed to participate in the discussion and the subsequent voting on the issues in agenda, in addition to being able to view, receive and transmit documents.

The Board of Statutory Auditors is regularly convened when the majority of Statutory Auditors is present, and resolves by simple majority of auditors present.

Members of the Board of Statutory Auditors attend Shareholders’ Meetings, those of the Board of Directors and of the Executive Committee. Auditors not attending without justification Shareholders’ Meetings or, in a fiscal year, two Board of Directors’ meetings or those of the Executive Committee, are removed from office.

The Board of Directors performs the duties attributed to it by Law and other applicable regulations.

## **16. RELATIONSHIPS WITH SHAREHOLDERS**

Main corporate documents are made available to Shareholders in a timely manner and on an ongoing basis on the Company's institutional website ([www.cembre.it](http://www.cembre.it) – *Investor Relations*) on an ongoing basis.

In particular, all press releases issued, financial documents approved by the respective corporate organs (annual report, half-year report and interim reports), in addition to documents distributed at meetings with institutional investors, analysts and the financial community, are published on the site, both in Italian and in English.

The institutional site also contains for consultation purposes main corporate governance documents (among which the annual Report on Corporate Governance), documents to be distributed at Shareholders' Meetings, the Organizational Model pursuant to Legislative Decree 231/2001, and the Code of Conduct.

In compliance with the provisions of article 2.2.3, comma 3, par. j) of Consob Issuers' Regulation, relationships with Shareholders are managed by the Investor Relations Manager. The position is currently covered by Claudio Bornati (contact: [claudio.bornati@cembre.com](mailto:claudio.bornati@cembre.com)).

The Investor Relations Manager participated to the procedure for the handling of privileged information, managing relations with the Monitoring Authority, contributing to the drafting of press releases and coordinating the flow of information to the financial community to ensure the full compliance with current regulations and confidentiality requirements.

## **17. SHAREHOLDERS' MEETINGS (ex art. 123-bis, comma 2, par. c), TUF)**

At the meeting of November 11, 2010, the Board of Directors amended the By-laws of the Company to comply with the provisions of Legislative Decree no. 27, implementing EU Directive 2007/36 on the exercise of some rights of Shareholders of listed companies.

Pursuant to article 12.7 of the By-laws *“the legitimacy to intervene in the Shareholder's Meeting and to exercise the right to vote is attested by a communication to the Company made by the intermediary that is a certified public accountant, based on evidence contained in the accounting records as of the end of the seventh market opening day before the date of the Shareholders' Meeting on first call, received by the Company within the term prescribed by Law”*.

Pursuant to article 12.2 of the By-laws, the Ordinary Meeting is called at least once a year to approve the financial statements within 120 days of the closing of the financial year, or within 180 days in case the Company is required to prepare consolidated financial statements and whenever particular needs relating to the peculiar structure and corporate objective of the Company so require. Extraordinary Shareholders' Meetings are called, in addition of those cases and for the purposes provided for by law, whenever the Board of Directors deems it necessary. The Meeting shall be called without delay when a request has been made pursuant to the Law.

The notice of Meeting is made by the Board of Directors through a notice to be published at least thirty days before the date of the Meeting on the *Gazzetta Ufficiale della Repubblica Italiana* or, as an alternative, on newspaper *Il Giornale*.

Pursuant to article 126bis, TUF, Shareholders who, individually or jointly, represent one fortieth of the capital stock, can request – with the exception of the event in which the proposal made



falls within the scope of the Board of Directors or is based on a project or report drafted by the same – at least ten days from the publication of the notice of Meeting (or five days in case the meeting is called pursuant to article 125-*bis*, comma 3, TUF or article 104, comma 2, TUF), an integration of items on the agenda, indicating in the petition the proposed issues. Shareholders requiring the integration of the agenda are required to prepare a report on the issues they wish to discuss and deliver it to the Board of Directors within the term provided.

Pursuant to article 2367 of the Civil Code, whenever Shareholders representing at least 20% of the voting rights so request, the Board of Directors must call without delay a Shareholders' Meeting.

Article 127-*ter* TUF states that Shareholders are entitled to pose questions on items in the agenda also before the Meeting. Questions posed before the Meeting will be addressed at the latest at the Meeting. The Company may choose to provide a comprehensive answer to all questions regarding the same issue.

Pursuant to article 13 of the By-laws, the Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in his or her absence, by a person designated by the Meeting. The Chairman of the Meeting is responsible for verifying, with the aid of appointed persons, where appropriate, that the Meeting is regularly convened, ascertaining the identity and legitimacy of persons present, and conducts the Meeting, verifying the results of voting procedures.

The Ordinary Shareholders' Meeting convened on first call is regularly convened when Shareholders representing at least half of the Company's share capital are present, while on second call the Meeting is regularly convened regardless of the proportion of the share capital represented.

The Ordinary Shareholders' Meeting convened on first or second call resolves with the favorable vote of the absolute majority of votes casted. Any resolution foregoing or waiving corporate responsibility action against Directors is intended as approved with the vote in favor of Shareholders representing at least one twentieth of the share capital of the Company.

The Extraordinary Shareholders' Meeting is regularly convened on first call when at least half of the Company's share capital is represented. On second call, the quorum is lowered to one third of the share capital, and on third call to one fifth of the share capital.

The Extraordinary Shareholders' Meeting convened on first, second or third call resolves with the favorable vote of at least two third of the votes of the Meeting.

The Shareholders' Meeting must be conducted so that all the rightful participants can follow events with no delay and form independent opinions and express freely their vote in a timely manner.

To facilitate participation in the Meeting and the exercise of vote by Shareholders, article 13.7 of the By-laws provides for the possibility of holding the Meeting in different places contemporaneously, either contiguous or distant from each other, in video/audio conference, provided no prejudice is made to the collegial method and the principles of good faith and equal treatment.

The Ordinary Shareholders' Meeting is responsible for and has powers assigned to it by the Law and the By-laws of the Company. In particular, the Ordinary Shareholders' Meeting:

- a) approves the financial statements;
- b) appoints and revokes Directors, and appoints Statutory Auditors and the Chairman of the Board of Statutory Auditors;
- c) determines the compensation of Directors and Statutory Auditors, where not already determined in the By-laws;
- d) resolves on responsibilities of Directors and Statutory Auditors;
- e) approves Shareholders' Meetings rules;

The Extraordinary Shareholders' Meeting is responsible for:

- a) amendments to the By-laws, except in the case provided for by article 18, 3<sup>rd</sup> comma of the By-laws;
- b) appointment, replacement and setting of powers of liquidators, pursuant to article 26 of the By-laws;
- c) the issue of financial instruments as per article 6 of the By-laws;
- d) the issue of bonds, within the limits set by article 7 of the By-laws;
- e) other matters attributed to it by Law and pursuant to the By-laws.

The right of withdrawal may be exercised only within the limits and according to binding law provisions and, pursuant to article 10 of the By-laws, is in any case barred in case of:

- a) extension of the term of the Company;
- b) introduction, change or elimination of restrictions to the circulation of shares.

Pursuant to article 25 of the By-laws, net profits reported in the financial statements, less possible remuneration of Directors pursuant to article 21 of the By-laws, and of 5% of net profits to be accrued to the ordinary reserve until this has reached 20% of the share capital, are available to the Shareholders' Meeting for assignment to Shareholders as dividends, with no prejudice to any other resolution of the Meeting.

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The Board of Directors proposed the adoption of the Rules for Shareholders' Meetings (the Rules) regulating the correct and functional course of the Company's ordinary and extraordinary Shareholders' Meetings, guaranteeing to each Shareholder the right to speak at the meeting on the issues under discussion.

The Rules, adopted by the Ordinary Shareholders' Meeting on May 14, 2001 and subsequently amended on May 14, 2004 in compliance with the reform of corporate law, is available to Shareholders at the Company's headquarters, at the sites where the Shareholders' Meetings take place and on the Company's institutional site [www.cembre.it](http://www.cembre.it) in the Investors Relations – Shareholders' Meetings section.

Said Rules, whose approval and amendment are reserved – pursuant to article 11 of the By-laws – to the Shareholders' Meeting, regulate the conduction of Shareholders' Meetings and, in particular:

- the attendance of Meetings by experts, financial analysts, journalists, representatives of independent auditors and – where deemed useful – of employees of the Company or its subsidiaries;
- the access to the premises in which the Meeting takes place;
- the procedures used in verifying the right of individual Shareholders to speak at the Meeting, that the Meeting is legally convened and the opening of the Meeting;
- cases for a recess of Meetings;
- the discussion of issues, including the setting of a maximum duration for individual speeches (limit which can in any case be increased by the Chairman of the Meeting in view of the importance of the issue discussed) and for rebuttals;
- the voting procedure and that for disclosing results.

Pursuant to article 7 of the Rules, the Chairman of the Shareholders' Meeting is in charge of conducting the meeting, ensuring the regularity of the same, the correctness of the discussion and the right of individual Shareholders to speak. Requests to speak on the issues under discussion can be submitted to the Chairman at the desk or by raising a hand from the moment the Meeting is declared convened until the Chairman declares closed the discussion on the

related issue under discussion. In calling persons to speak, the Chairman normally follows the order of presentation of requests. Each Shareholder may only speak once on each individual issue under discussion, for a maximum of ten minutes (10'), except when, in view of the importance of one or more issues in agenda, the Chairman, in declaring the Meeting regularly convened, deems it appropriate to raise the time limit for each speech to twenty minutes (20').

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With regard to Shareholders' rights, we refer to norms and regulations applicable, with the exception to the cases described below.

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The Board has reported to the Shareholders' Meeting on the activity performed and on activities planned, and also actively worked to ensure that the Shareholders are provided with such adequate information to enable decision-making with such full knowledge as required at this Meeting level.

At its meeting of March 15, 2010, the Board of Directors, pursuant to Application Criterion 11.C.6 of the Civil Code, did not deem it necessary to propose to the Shareholders' Meeting any amendment to the By-laws with regard to the minimum representation to qualify for the exercise of prerogatives of minority interests, as –in application of article 144<sup>quater</sup> of Consob Issuers' Regulation regarding the presentation of lists of candidates to the position of Director and Statutory Auditor– articles 15.5 and 23.2 of the Company's By-laws require a minimum threshold of 2.5% of voting shares or a different percentage established or contained in laws and regulations. In this regard, we acknowledge that, with resolution 17633 of January 26, 2011, Consob set at 2.5% of the share capital the threshold for participating in the presentation of lists of candidates to the position of Director and Statutory Auditor, with reference to the financial year closed December 31, 2010.

## **18. FURTHER CORPORATE GOVERNANCE PRACTICES**

The Company does not adopt any other corporate governance practice in addition to those provided for laws and regulations and to those described in the present Report.

## **19. CHANGES OCCURRED FROM THE CLOSING DATE OF THE FINANCIAL YEAR**

No change in the corporate governance structure of the Company occurred from the closing date of the financial year of reference, other than those specifically mentioned in the present Report.

Brescia, March 15, 2011

The Chairman and Managing Director of

CEMBRE S.p.A.

Giovanni ROSANI