

## Report on Corporate Governance and shareholding structure pursuant to art. 123 bis of Legislative Decree 58 of 24 February 1998 and on the Code of Conduct

*Dear Shareholders,*

the purpose of this report (the “Report”), which has been prepared in compliance with art. 123 bis of the Consolidated Law on Finance (the Testo Unico della Finanza or “TUF”) is to provide the information required by the TUF regarding the structure, organisation and functioning of the Company with respect to the requirements of art. 89 bis of Consob Regulation approved by Resolution no. 11971 of 14 May 1999 (the “Issuers Regulation”) and the Market Regulation of the markets organised and managed by Borsa Italiana S.p.A., Section IA.2.6.

The Company has continually improved the quality and quantity of the information it has provided on corporate governance every year ever since the presentation of the financial statements at 30 June 2000. The individual reports within the sections of the financial statements for the respective years can be viewed at [www.kme.com](http://www.kme.com); the Reports are also available in a special section starting from the Report on the financial year ended on 31 December 2006.

For the ease of reading and comparison, the Report is divided into two parts, four sections and four tables and is an integral part of the Directors’ Report at 31 December 2011. It has been prepared in compliance with the indications given in the “Code of Conduct” provided by Borsa Italiana S.p.A. (hereafter the “Code of Conduct” or the “Code” in its version of March 2006) which the company declared to adopt. The purpose of the Report is to describe the extent of the Company’s compliance with the Code during the year ended 31 December 2011 by giving the reasons for any departures from the Code and describing the action already taken and action planned to assure conformity. The Code of Conduct was substantially revised in December 2011, with its recommendations made “simpler” by reducing them to 10 from the previous 12 in the 2006 Code, and by updating the contents to reflect the many regulatory changes that made certain sections obsolete (hereinafter the “New Code”).

The provisions of the New Code must be introduced by the end of the 2012 financial period, informing the market of this with the report to be published in 2013; in addition the Company has already commenced the necessary checks and updates. References to the articles in the Code in this Report obviously refer to the old text.

In addition, note that the section of the Report that has traditionally been devoted to remuneration of the Directors and the key managers, can now be found under a specific, separate “Remuneration Report” drawn up in compliance with CONSOB provisions to which the reader should refer.

Finally, certain changes were introduced in corporate governance matters in 2011 such as the following:

- introduction into the system of the “shareholders’ rights directive” provisions which entails adopting a series of changes to the Shareholders’ Meetings;
- implementation of the EU Directive on auditing matters, in accordance with which the Board of Statutory Auditors also comprises the “Internal Control and Auditing Committee”, with supervisory functions in the area of financial disclosures, internal control systems, risk management and auditing;
- the full entry into effect of the CONSOB provisions on relations with “related parties”.

The Company adopted the new provisions adjusting the Articles of Association during the General Shareholders’ Meeting of 28 April 2011 and adopting new procedures regarding transactions with related parties at the end of 2010.

Due to the number of references made to the Company Articles of Association, a copy has been attached to the end of the Report, and they are also available on the website [www.kme.com](http://www.kme.com).

### **1. Regulatory environment**

The “corporate governance” provisions have been subject to numerous legislative changes which led to application of a temporary system in 2008. The most recent legislation in that respect came into full force with the period ended 31 December 2009.

CONSOB amended art. 89 bis of its Regulation 11971 (the “Issuers Regulation”) in 2009 in conjunction with art. 123 bis of the TUF by requiring listed companies to publish information every year on corporate governance, shareholding structure and the adoption, where applicable, of a Code of Conduct.

CONSOB also required that this information either be an integral part of the Directors’ Report or in the form of a stand-alone report and be made available in a specific section on the internet.

In regard to these provisions, the Report is included as an integral part of the Directors’ Report on the financial statements as at and for the year ended 31 December 2011. This Report has, therefore, also been made available on the page “Report on Corporate Governance” at [www.kme.com](http://www.kme.com) as well as on Borsa Italiana S.p.A.’s website ([www.borsaitaliana.it](http://www.borsaitaliana.it)) in its capacity as the manager of the market.

In preparing the Report account has been taken of the indications provided by ASSONIME as well as the “Guidelines” prepared by Borsa Italiana S.p.A. and the “Guide to the compilation of the report on corporate governance” again prepared by ASSONIME in cooperation with Emittenti Titoli S.p.A.

As noted above, the section of the Report that was traditionally devoted to remuneration of Directors and key managers can now be found in a specific, separate “Remuneration Report”.

The Report takes account of the provisions of the III edition of the “Experimental format of Corporate Governance Reports” that Borsa Italiana S.p.A. communicated to issuing companies in February 2012. As specified by Borsa Italiana S.p.A., the report is “non binding” and “functions as an instrument aimed at assisting issuers in preparing and checking the report pursuant to article 123 bis of the TUF, and for the controls to be carried out by the Board of Statutory Auditors”. The tables at the end of the report have also been prepared and updated in compliance with it.

In addition, “gender quota” provisions were introduced into the TUF in 2011 applicable to management and control bodies. These provisions had already entered into effect in August 2011 but will be applied to bodies that are up for change starting from August 2012. In addition, legislation is being put in place in the first few months of 2012 aimed at “correcting” certain provisions of the TUF regarding the protection of Shareholders’ rights. These corrections should apply to the general meetings where publication of the first call of the meeting is made after 1 January 2013.

### **2. Company profile**

The core business of KME Group S.p.A. is the manufacture and sale of semi-finished products in copper and its alloys, in which sector it is a world leader.

Following execution of the partial inversely proportional split of iNTEk S.p.A. (hereinafter “iNTEk”) in favour of KME Group S.p.A. finalised on 22 March 2010 (hereinafter the “Split”) and the merger of Drive Rent S.p.A. and COBRA Automotive Technologies S.p.A. which took effect from 1 July 2011, the Company extended its activities to different industrial sectors from its traditional sectors, acquiring significant equity investments in the following companies:

- ErgyCapital S.p.A. (renewable energy);
- COBRA Automotive Technologies S.p.A. (services).

equity holdings concentrated in the fully owned company KME Partecipazioni S.r.L.

The Directors' Report contains further information.

The Company maintained its structure of corporate governance with a Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. The Remuneration and Internal Control Committees were also established both of which consist of only independent and non-executive directors.

The corporate governance structure of other group companies, however, is different with Germany's largest industrial company having a structure which is fully in line with German practice that entails a two-tier management structure consisting of a Supervisory Board (Aufsichtsrat) and a Management Board (Vorstand).

### *2.1 Shareholders' agreements of investee companies*

With respect to companies that do not form part of the copper sector, there is a significant shareholders' agreement in place between KME Group and Aledia S.p.A. (hereinafter "Aledia") pursuant to article 122 of the TUF regarding ordinary shares of the investee company ErgyCapital S.p.A., originally agreed on 10 December 2007 between iNTEK and Aledia and subsequently amended on 25 February 2010 due to an amending agreement, and therefore in effect between the current Shareholders since 22 March 2010, the date the Split took effect.

The Agreement, which is consultative in nature in addition to regulating voting, restricts the transfer of financial instruments and produces the joint exercise of dominant influence as per art. 122, para. 1 and para. 5, lett. a), b) and d), of the TUF. CONSOB was notified of the agreements and they were filed with the Registry of Companies of Rome.

This Agreement covers 39,328,835 ordinary shares of ErgyCapital S.p.A., or 41.47% of the share capital, of which 25,412,895 shares, or 26.80% of the share capital, are held through KME Partecipazioni S.r.l. and 13,915,940 shares, or 14.67% of the share capital, by Aledia.

By virtue of the Shareholders' Agreement, KME Group and Aledia jointly exercise dominant influence over the operations of ErgyCapital, while neither of them has the power to exercise control over the company individually pursuant to article 93 of the TUF.

As noted above, in 2011 there was a merger between Drive Rent S.p.A. and Cobra Automotive Technologies S.p.A., a company governed by Italian law, listed on the STAR segment of the Mercato Telematico Azionario (Telematic Share Market) (hereinafter "M.T.A."), which operates in the integrated security service sector for the prevention and management of vehicle associated risk, resulting in KME becoming the biggest shareholder with 42.68% after the merger. This shareholding then increased to 51.589% following subscription to the capital increase operation of Cobra Automotive Technologies S.p.A. which reached a conclusion in January 2012.

A "shareholders' agreement" was signed between the Company and the other major shareholder of Cobra Automotive Technologies S.p.A., Cobra Automotive Technologies S.A., which is considered to be significant in accordance with article 122 of the TUF, and which furthers the objectives pursued with the merger, i.e. to improve conditions so that the potential to develop and enhance the value of Cobra Automotive Technologies S.p.A. can be maximised. CONSOB was notified of the agreements and they were filed with the Registry of Companies of Varese.

The indirect ownership by the Company through KME Partecipazioni S.r.L. of the majority of voting rights that can be exercised in the ordinary shareholders' meeting of Cobra Automotive Technologies S.p.A. does not give rise to the control of this latter since there are "reduction of powering" factors attached to the majority holding that do not permit it to establish the financial and management policies of the aforesaid company by reason of provisions of the Articles of Association and agreements.

### ***3. First part: ownership structure***

#### *3.1 Structure of share capital*

The share capital at 31 December 2011 was Euro 297,040,568.04, consisting of 491,047,066 shares, of which 447,347,650 were ordinary shares and 43,699,416 were savings shares, all of which with no par value.

Both categories are listed on the M.T.A.

The share capital increased by Euro 26,982.78 in 2011 due to the exercise of 41,048 "2006/2011 KME Group S.p.A. ordinary share warrants", which led to the issue of 20,524 ordinary shares and the exercise of 48,523 "2009/2011 KME Group S.p.A. ordinary share warrants" which in turn led to the issue of 48,523 ordinary shares.

The last exercise of the share warrants was in December 2011.

The 447,347,650 ordinary shares represent 91.11% of the share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

Each share carries unrestricted voting rights unless otherwise provided by law. Votes may be cast by mail in accordance with the procedure pursuant to article 11 of the Articles of Association.

Similarly, the 43,699,416 savings shares represent 8.89% of share capital and do not entail rights different or additional to the rights pursuant to legislation and the Company Articles of Association.

The rights of the Savings Shareholders are provided by articles 145 et seq. of the TUF and articles 5, 8 and 28 of the Articles of Association. Their joint representative, who can take part, and has the right to intervene, in the General Meetings of the Shareholders who own ordinary shares and whose rights are provided under article 26 of the Articles of Association, is Mr. Romano Bellezza, appointed for the 2009/2011 period by the Special Meeting of the Savings Shareholders held on 24 April 2009.

Savings shares entail the following preferential rights:

- the right to a preferred dividend of a maximum of Euro 0.07241 per share per annum subject to the right to other dividends of Euro 0.020722 per share more than savings share dividends. This, however, is without prejudice to the prorated increase in the preferred dividend in each of the two years following the payment of a preferred dividend of less than Euro 0.07241 per share;
- in the event the Company is wound up, savings Shareholders have a preferred right to the liquidation proceeds of Euro 1.001 per share.

The right to exercise the “2006/2011 KME Group S.p.A. ordinary share warrants” or the “2009/2011 KME Group S.p.A. ordinary share warrants” ceased on 30 December 2011.

To that end, there was a total of 6,423,049 warrants exercised (equal to about 4.4% of the total issued), with the resulting subscription and issue of 2,390,078 new ordinary shares for a value of about Euro 2.2 million.

A resolution was also approved by Shareholders at Extraordinary Meeting of 2 December 2009 to authorise the Board of Directors in accordance with art. 2443 of the Italian Civil Code to implement a second share capital increase in one or more tranches for a maximum amount of Euro 15 million including any premium through the issuance of 31,000,000 ordinary shares reserved for beneficiaries of the Stock Option Plan (Executive Directors and Group Executives of Group companies) as approved in the ordinary session of the same meeting in accordance with the second sentence of art. 2441, para. IV of the Italian Civil Code.

The Shareholders approved a resolution to determine the issue price as the arithmetic mean of the official closing prices for the ordinary share on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. (the “MTA”) during the period between the grant date of the options and the same date of the preceding calendar month with all powers by the Directors to determine, from time to time, the exact number of ordinary shares to be issued to service the Plan, the exact issue price including any premium in addition to the method and timing of any capital increase.

The authorisation in question was partially used by the Board of Directors, when the deadlines set at the Shareholders’ meeting of 2 December 2009 passed, on 7 October 2010 by executing the stock option plan approved by the Shareholders’ meeting as part of the project to reorganise the Group which was implemented in the previous months by means of the Demerger.

The Demerger in fact led to a greater focus on the Group’s activities by transforming the role of KME Group S.p.A. into that of an investment holding, which is responsible for three distinct business areas: copper, renewable energy and services, each of which has separate incentive systems.

The “KME Group S.p.A. Stock Option Plan 2010-2015” (hereafter the “Plan”) replaces the previous plan, which was approved in 2006, which, in light of the Group’s new corporate/organisational arrangements, was withdrawn at the same time; further details on the Plan are given in the “remuneration of the directors and other Group senior management” as well as the “Information Report” which was prepared at the time and is available on the company’s website.

The share capital increase servicing the Plan, with regard to the part which has already been approved at the date of this report, envisages the issue of a maximum of 25,500,000 KME Group S.p.A. ordinary shares, with dividend rights, at a price per share of Euro 0.295, for an overall amount of a maximum of Euro 7,522,500.00, excluding the option right pursuant to art. 2441, para. 4, lett. b, of the Italian Civil Code.

As required by the aforementioned provision, the independent auditors, KPMG S.p.A., issued a specific report on the correlation to the market value of the issue price of the new shares.

Any exercise of the options that were provided under the stock option plan could give rise to a change in the share capital on a monthly basis. Any change in the composition of share capital is advised to the market by Stock Exchange Notice (see the section below on the processing of company information for details of the NIS system) and also made available on a special page of [www.kme.com](http://www.kme.com).

Another section of the Directors Report shows the performance of the Companies shares and market capitalisation during the year. In this regard, it should be noted that a specific section of the website [www.kme.com](http://www.kme.com) is dedicated to these aspects and is continually updated and thus shows the real-time trend in trading.

**TABLE 1: INFORMATION ON THE STRUCTURE OF SHARE CAPITAL AND THE FINANCIAL INSTRUMENTS**

<b>STRUCTURE OF SHARE CAPITAL</b>				
	<i>ISIN</i>	<i>number of shares</i>	<i>% of total share capital</i>	
Ordinary shares	IT0004552359	447,347,650	91.11	
Bearer savings shares	IT0004552367	43,699,416	8.89	
Registered savings shares	IT 0004552375			
<b>OTHER FINANCIAL INSTRUMENTS</b>				
<i>granting the right to subscribe new share issues (all rights lapsed from 30 December 2011)</i>				
	<i>ISIN</i>	<i>in issue</i>	<i>Class of shares issued on exercise</i>	<i>Number of shares issued on exercise</i>
<i>Warrants 2006-11</i>	IT0004077167	67,876,124	Ordinary shares	33,938,062
<i>Warrants 2009-11</i>	IT0004552383	73,330,660	Ordinary shares	73,330,660

### *3.2 Transferability*

The Company Articles of Association impose no restrictions on the transferability of shares or warrants.

### *3.3 Significant shareholdings in the Company*

After the amendments made in 2010 following the Split and following the capital increase of the Company, the overall holding of Quattrodedue Holding B.V. amounted to a total of 184,880,841 ordinary shares, corresponding to 41.33%, held through its subsidiaries IntekCapital S.p.A. with 52,197,171 ordinary shares, equal to 11.67%, and Quattrodedue S.p.A. with 132,683,664 ordinary shares, equal to 29.66%. The remaining 6 ordinary shares were held by Quattrodedue Holding B.V.

There were no changes for the year in consideration, apart from the merger (with effect from 15 June 2011) of IntekCapital S.p.A. into its parent company iNTEK S.p.A. which therefore became a direct shareholder of the Company, thereby changing the previous chain of control.

With reference to the date of 19 January 2012, therefore following the year-end date, Quattrodedue S.p.A. in turn transferred its shareholding to the fully controlled Quattrotrete S.r.L. (60.18% of whose capital belongs to Quattrodedue S.p.A and 39.82% of which to Quattrodedue Holding B.V.).

In view of the above, at the date of this Report, the overall holding of Quattrodedue Holding B.V. amounted to a total of 184,880,841 ordinary shares, corresponding to 41.328%, held through its subsidiaries INTEK S.p.A. with 52,197,171 ordinary shares, equal to 11.67%, and Quattrodedue S.p.A. with 132,683,664 ordinary shares, equal to 29.66%. The remaining 6 ordinary shares are held by Quattrodedue Holding B.V.

The total Quattrodedue Holding B.V. holding is still the same, at 37.7% with respect to the entire share capital.

The Shareholders of Quattrodedue Holding B.V. are Vincenzo Manes, through Mapa S.r.l. (Milan) with a shareholding of 35.12%, Ruggero Magnoni, through Likipi Holding S.A. (Luxembourg) with a shareholding of 32.44% and Hanseatic Europe S.a.r.l. (Luxembourg) with a shareholding of 32.44%. None of the Shareholders, all of whom are parties to a Shareholders' agreement, controls the Company pursuant to art. 93 of the TUF.

As far as the company is aware, the other Shareholders who hold more than 2% of the share capital are Francesco Baggi Sisini, through the subsidiary Arbus S.r.L., with 12,593,898 ordinary shares or 2.82% and Dimensional Fund Advisors L.P. with 8,952,227 ordinary shares, 2.0015%.

The company has 11,321 shareholders according to the updated entries in the Shareholders Register.

### *3.4 Securities conferring special rights*

No securities have been issued conferring special rights of control.

### *3.5 Employee investment, voting rights*

There is no system of employee investment.

### *3.6 Restrictions on voting rights*

Apart from statutory requirements and the provisions of the Company Articles of Association, there are no restrictions imposed on voting rights. Each share carries one voting right (art. 11 of the Articles of Association).

In that connection, at their Meeting of 19 May 2006, the Shareholders resolved to vary art. 4 of the Company Articles of Association to permit the Shareholders to authorise a capital increase of up to 10% of existing share capital without rights to existing Shareholders pursuant to the second sentence of art. 2441, paragraph IV of the Italian Civil Code.

Furthermore, art. 27 of the Company Articles of Association provides that a resolution to extend the duration of the Company (currently 31 December 2050) gives no right of rescission pursuant to art. 2437 of the Italian Civil Code.

### *3.7 Shareholders' agreements*

The Company has not been notified of the existence of Shareholders' agreements pursuant to art. 122 of the TUF.

### *3.8 Change of control clause*

Neither the Company nor its subsidiaries has entered into arrangements the effectiveness, variation or termination of which are conditional to a change in the control of the Company.

The Company did not adopt any provisions in its Articles of Association that depart from the provisions of the passivity rule pursuant to article 104, paragraph I and II of the TUF, nor provide for application of the neutralisation rules pursuant to the following article 104 bis, paragraph II and III of the TUF.

### *3.9 Authorisations to increase capital and acquire treasury shares*

The Board of Directors has not been authorised pursuant to art. 2443 of the Italian Civil Code to issue equity instruments, with the sole exception of the authorisation of the Directors at the Extraordinary Shareholders' Meeting of 2 December 2009 to increase share capital within five years of the date of the Meeting by a total of Euro 15 million for the issue of a maximum amount of 31,000,000 ordinary shares, without rights pursuant to the second sentence of art. 2441, para. 4 of the Italian Civil Code to service a Stock Option Plan for Executive Directors and key managers of the Company and the Group as approved in the ordinary session of the same Meeting, which has been partially used as reported in the paragraph 3.1 here above.

Further details can be found in the previously mentioned Remuneration Report.

The Shareholders' General Meeting of 28 April 2011 gave the Board of Directors the authorisation governed by the provisions of articles 2357 and 2357 ter of the Italian Civil Code, and article 132 of Legislative Decree 58/98 to purchase ordinary shares and savings shares.

The Shareholders' General Meeting, which shall be called to discuss the extraordinary operation mentioned in another part of the Directors' Report (please refer to it for further information) will also decide on granting new authorisation to the Directors to acquire and sell treasury shares, revoking the previous authorisation at the same time.

Within the scope of the authorisations given by the Shareholders' General Meeting for the acquisition of treasury, ordinary and savings shares, as at 31 December 2011 and considering that no acquisitions had been made since 26 February 2009, these holdings amounted to 7,602,700 ordinary shares (1.70% of the total of the category and 1.5% of

the entire share capital) and 135,831 savings shares (0.310% of the total of the category and 0.028% of the entire share capital). Total treasury shares held at that date were 1.575% of total share capital.

610,055 ordinary treasury shares were sold in February 2011.  
The subsidiaries do not hold shares of the parent.

### *3.10 Management and coordination*

Even though the Company is controlled by Quattrodedue Holding B.V. as indicated above, it does not consider itself to be subject to management and coordination as provided under articles 2497 et seq. of the Civil Code, and article 37 of CONSOB Regulation 16191 of 29 October 2007 (hereinafter “Market Regulation”), since:

- a. it has autonomous powers of negotiation with respect to contractual arrangements with customers and suppliers;
- b. the Company does not participate in any centralised treasury arrangements operated either by iNTEK S.p.A. or Quattrodedue Holding B.V. or any other company under the control of iNTEK S.p.A., Quattrodedue Holding B.V. and KME Group S.p.A.;
- c. the number of independent Directors (4 out of 12) is such as to ensure that their opinions have a material influence on board decisions.
- d. the Internal Control Committee consists exclusively of independent directors pursuant to art. 37, para. 1 bis of the Market Regulation.

## **4. Second part: information on corporate governance**

### *4.1 Compliance*

It was announced at the Board of Directors’ Meeting of 10 November 2006 that the Company had adopted the Code of Conduct and that its relevant principles would be gradually introduced throughout the Company. If the standards and application criteria of the Code have not been accepted, adequate information will be provided on the reasons for the failure to apply it or its partial application.

The text of the Code of Conduct is available from Borsa Italiana S.p.A. and can also be viewed at: [www.borsaitaliana.it](http://www.borsaitaliana.it) (section: “Regulations – Corporate Governance”).

As required by art. 149, paragraph 1, letter c bis of the TUF, the Board of Statutory Auditors monitors the actual implementation of the Rules of Corporate Governance contained in the Code.

As noted above, the Code of Conduct was subject to significant revision in December 2011 and its provisions are expected to be introduced by the end of 2012.

In accordance with the new provisions regarding remuneration, payments made to the Directors, the General Managers, the Key Managers with key responsibilities and the Board of Statutory Auditors, and any of their capital investments are no longer reported in this Report, but are contained in the Remuneration Report using the tables prepared by CONSOB.

More specifically:

- the information required by article 123-bis, first paragraph, letter i) (“*the agreements between the company and*

- the directors..... that provide for compensation in the event of dismissal or resignation without just cause, or if the work relationship ceases following a public purchase offering”) are contained in the Remuneration Report;*
- the information required under article 123-bis, first paragraph, letter 1) (*“the regulations applicable to the appointment and replacement of the directors..... and amendments to the Articles of Association, if different from the legislative and regulatory laws applicable on an additional basis”) are illustrated in the section of this Report dedicated to the Board of Directors.*

## 4.2 Board of Directors

### 4.2.1 Appointment and replacement of directors

The requirements for the appointment and replacement of members of the Board of Directors are those pursuant to law as amended and supplemented by the Company Articles of Association (art. 17) as are the procedures for their amendment. Note that these provisions were subject to recent amendments in 2010 and 2011 in accordance with the shareholders’ rights directive. These amendments were illustrated in detail in last year’s Report to which you should refer for further details.

Directors’ terms may not be longer than three years but they may be re-elected (art. 17 of the Articles of Association). On nomination of a candidate for the position of Director, Shareholders are provided with the candidate’s curriculum vitae and a list of the positions held by the candidate at other companies as board director or statutory auditor.

The current Board of Directors was appointed by the Shareholders at their Meeting of 29 April 2009 for 2009, 2010 and 2011 with their appointment terminating on the date of the Shareholders’ Meeting held to approve the financial statements as at and for the year ending 31 December 2011.

The number of Directors may vary between a minimum of nine and a maximum of twelve.

The Shareholders at their above-mentioned Meeting of 29 April 2009 fixed the number at twelve which was unchanged from the previous Board. The section entitled “Composition of the Board of Directors” contains more detailed information.

A list of nominations for Directorships was presented on time by the then majority shareholder, iNTEK S.p.A. (53.82% Shareholder of ordinary capital) in compliance with the procedure required by art. 17 of the Company Articles of Association. The Shareholders unanimously elected iNTEK’s nominees with 57.691% of voting shares in attendance. No Director was, consequently, selected from a non-controlling Shareholder list for appointment.

The procedure pursuant to art. 17 of the Articles of Association requires:

- the submission of lists of candidates at least 25 days prior to the first call of the Shareholders’ meeting, so that they are available at least 21 days beforehand at the company offices, on the company’s website and through Borsa Italiana S.p.A.;
- the shareholding percentage required for the submission of lists to be equal to the highest percentage required by regulation which is currently 4.5% of ordinary capital (as per CONSOB Resolution no. 18083 of 25 January 2012);
- when counting votes, the lists which have not obtained a percentage of votes equal to one half of the percentage required to submit a list, to be ignored;

- one Director to be appointed from the non-controlling Shareholder list that received the highest number of votes;
- the list to indicate the candidates for appointment as “Independent Directors” and art. 17 of the Articles of Association requires that their number be at least equal to the statutory “minimum number of independent Directors” and that they be “in possession of the attributes required by law”;
- the prerequisite for directors to be considered as independent to be assessed pursuant to art. 148, para. 3 of the TUF as well as, on the basis of the provisions regarding this prerequisite and also in reference to integrity and professionalism, pursuant to the other applicable provisions and the Code of Conduct.

The procedure described in article 17 of the Articles of Association is also available in the relevant section of the website [www.kme.com](http://www.kme.com).

#### *4.2.2 Composition of the Board of Directors*

The names of the members of the Board of Directors are given below together with a description of their responsibilities including those of constituent Committees and a brief curriculum vitae. Such information is also available on the relevant web page of [www.kme.com](http://www.kme.com).

When the Directors and Statutory Auditors currently in office were appointed, there were no “gender quotas” yet in place for administration and control bodies. These provisions are contained in Law no. 120 of 12 July 2011 and shall apply from the next change of the administration and control bodies starting from August 2012; the subject is also dealt with by article 144-undecies of the Issuer’s Rules. Since 2005 there has been a single female director who took over as Deputy Chairwoman in 2010.

The names of the Directors normally appear at the beginning of the documents prepared for Shareholders’ Meetings and in the annual and interim financial statements.

With effect from 22 March 2011, Mr. Domenico Cova, engineer, resigned his position as Director and General Manager of the Company, and on the same date, Mr. Riccardo Garrè replaced him in accordance with article 2386 of the Italian Civil Code and was appointed as General Manager with responsibility in the semi-finished copper and copper alloy products sector. The following General Shareholders’ Meeting of 28 April 2011 confirmed him in his position as Director, and the Board of Directors meeting held on the same date confirmed his position as General Manager.

Information relating to both directors is set out below.

#### **Salvatore Orlando (Chairman)**

Salvatore Orlando was born in 1957 and holds a degree in Political Sciences. He joined the Group as an executive in 1984. He was subsequently appointed to the Boards of Directors of the largest industrial companies of the Group. He has been a Director of the Company since 24 April 1991 and of iNTEk S.p.A. since 2007.

#### **Vincenzo Manes (Deputy Chairman)**

Vincenzo Manes was born in 1960 and holds a degree in Economics and Business. He is Chairman and Chief Executive Officer of iNTEk S.p.A. and is a Shareholder of Quattrodue Holding B.V. in addition to being Chairman of Aeroporto di Firenze S.p.A.

He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

### **Diva Moriani (Deputy Chairwoman)**

Diva Moriani holds a degree in Economics and Business. She joined iNTEK S.p.A in 1999 and the Company's Board of Directors in 2002 and became Deputy Chairwoman in 2007; she is Chief Executive Officer of KME Partecipazioni and of I2 Capital Partners SGR S.p.A. and Chairwoman of ErgyCapital S.p.A. since 2011. The Board of Directors approved the appointment of Diva Moriani as Deputy Chairwoman on 25 March 2010, granting her full ordinary and extraordinary powers. She joined the Board of Directors on 27 April 2005.

### **Domenico Cova (resigned on 22 March 2011)**

Domenico Cova was born in 1949 and holds a degree in Electronic Engineering. He joined the Group following the acquisition of Trafilerie e Laminatoi di Metalli S.p.A. (TLM) a member of the French Pechiney Group. He was appointed head of rod production at the Serravalle Scrivia plant in 1977 and its Manager in 1983. He was then transferred to the French subsidiary KME France S.A.S. becoming its Chairman in 2000. He became a member of the KME A.G. Management Board in 1995. He was appointed Chief Operating Officer of KME A.G. in 2007 and subsequently Chief Executive Officer in 2010. He was appointed Director by Shareholders' resolution of 3 August 2007 and on the same date he was appointed General Manager. He resigned from these positions as well as those in other companies of the Group in March 2011.

### **Riccardo Garrè (Director and General Manager)**

Born in 1962, Riccardo Garrè holds a degree in Experimental Physics and joined the Group in 1988, initially managing a number of Italian Research Centre operations and then taking over leadership of the Superconductors Division in 1992.

In 2000 he joined the Saint-Gobain Group as CEO of Saint-Gobain Euroveder Italia, also becoming General Manager of the worldwide Tempered Glass Division for the household appliances market.

He was appointed General Manager of Saint-Gobain Glass's Italian operations in 2003. He became General Manager of Saint-Gobain Glass France in 2007.

In 2010 he returned to the KME Group as COO (Chief Operating Officer) of KME A.G.

On 22 March 2011 he was co-opted as a Company director, pursuant to art. 2386 of the Italian Civil Code, and as General Manager. He took over the industrial copper business as CEO (Chief Executive Officer) of KME A.G. The Shareholders' Meeting of 28 April 2011 confirmed his role as Director and the Board of Directors' Meeting held on the same day confirmed his position as General Manager.

### **Italo Romano (Director and General Manager)**

Italo Romano was born in 1958 and holds a degree in Economics and Business. He joined the Group in 1988 with responsibilities in the administrative area and controlling. He was appointed Corporate Group Controller in 2001 in charge of studying the restructuring of the entire IT and administrative sector of the Group. He was appointed as General Manager "Administration, Control & Corporate Plan" in 2004. In 2005 he was appointed to the Board of Directors of KME Italy S.p.A. and became its Executive Deputy Chairman. He became part of the Vorstand (Management Board) of KME A.G. in 2005 and took on the position of CFO (Chief Financial Officer) of KME Group S.p.A. He was appointed Director by decision of the General Shareholders' Meeting of 3 August 2007 and the Board of Directors appointed him as General Manager on the same date.

**Vincenzo Cannatelli**

Vincenzo Cannatelli was born in 1952 and holds a degree in Mechanical Engineering; he also has important international experience and began his career in the Stet and Elsag Bayle Groups to then move to ENEL where he held important positions in the operating companies as Chief Operating Officer in the Infrastructure & Networks as well as the Market Divisions. He was co-opted as Director by resolution of the Board of Directors on 11 April 2006 and confirmed by the Shareholders at their Meeting of 19 May 2006 for the next three years. He was also appointed by the Board of Directors on the same date to the position of Chief Executive Officer, which he held until 31 March 2007, after which he continued to hold the position of Director. He is the CEO of ErgyCapital S.p.A. and Executive Deputy Chairman of NTV – Nuovo Trasporto Viaggiatori S.p.A.

**Mario d’Urso (independent)**

Mario d’Urso was born in Naples in 1940 and holds a degree in Law. He has held positions in the finance sector and government and was Senator of the Republic and an under-secretary in one of the past governments. He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

**Marcello Gallo**

Marcello Gallo was born in Siracusa in 1958 and holds a degree in Political Economics. He is Deputy Chairman of iNTEK S.p.A., after having served as General Manager from 1998 to 2003. He is a member of the Boards of Directors of companies controlled by iNTEK S.p.A. He was appointed to the Board of Directors of KME Group S.p.A. on 14 February 2005.

**Giuseppe Lignana (independent)**

Giuseppe Lignana was born in 1937 and holds a degree in Electronic Engineering. He was Chief Executive Officer of CEAT Cavi S.p.A. and Director at Banca Commerciale Italiana S.p.A. and SIRTI S.p.A.. He joined Cartiere Burgo S.p.A. in 1984 where he served as General Manager, Chief Executive Officer and finally Chairman in 2004 and is currently Honorary Chairman. He was appointed to the Board of Directors on 12 January 2005.

**Gian Carlo Losi**

Gian Carlo Losi was born in 1947 and holds a degree in Economics and Business. He joined the Group in 1973 after having been a university assistant in the Faculty of Business Administration at the University of Florence. He became an Executive in 1977 and was then made Head of Group Finance and Controlling. He was appointed General Manager of G.I.M - Generale Industrie Metallurgiche S.p.A. in 1990. After having served as director and statutory auditor in Italian and international companies of the Group, he is currently secretary of the Company’s Board of Directors responsible for Corporate Affairs & Internal Control and Chairman of KME Partecipazioni S.r.l. He was appointed Director by decision of the General Shareholders’ Meeting on 3 August 2007.

**Alberto Pecci (independent)**

Alberto Pecci was born in 1943 and holds a degree in Political Sciences. He has been a member of the Boards of Directors of the Company and the Group for many years. He is Chairman of the Boards of Directors of Pecci Industrial Group Companies, which operates in the textile sector, and is a member of the Boards of Directors of El.En. S.p.A. and Alleanza Assicurazioni S.p.A. He served as Chairman of Fondiaria S.p.A. and as Director at Assicurazioni Generali S.p.A., Mediobanca S.p.A. and Banca Intesa S.p.A. He joined the Board of Directors on 28 June 1996.

### **Alberto Pirelli (independent)**

Alberto Pirelli was born in 1954 and obtained a degree in Ichthyology and Aquaculture in the United States. He has held operating positions in the Pirelli Group and is currently Deputy Chairman of Pirelli & C. S.p.A. and is a Director of Camfin S.p.A. and Olimpia S.p.A. He is Deputy Chairman of Gruppo Partecipazioni Industriali S.p.A. He joined the Board of Directors on 27 October 2000.

Set out below is a table showing positions as director or statutory auditor held by each Director at 31 December 2011 in joint-stock companies, limited partnerships and private limited companies.

<b>Name</b>	<b>Company</b>	<b>Position</b>
<b>Salvatore Orlando</b>	KME Italy S.p.A.(1)	Chairman of the Board of Directors
	KME Germany A.G.(1)	Member of the Supervisory Board
	iNTEK S.p.A(3)	Member of the Board of Directors
<b>Vincenzo Manes</b>	iNTEK S.p.A. (3)	Chairman/Chief Executive Officer
	IntekCapital S.p.A. (2)(***)	Member of the Board of Directors
	Fondazione Dynamo	Chairman of the Board of Directors
	I <sub>2</sub> Capital Partners SGR S.p.A. (2)	Deputy Chairman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)(*)	Member of the Board of Directors
	Vita Società Editoriale S.p.A.	Member of the Board of Directors
	Fondazione Laureus Sport for Good Italia	Member of the Board of Directors
	Fondazione W.W.F. Italia	Member of the Board of Directors
	Fondazione Vita	Chairman
	Meccano S.p.A.	Member of the Board of Directors
	Aeroporto di Firenze S.p.A.	Chairman of the Board of Directors
	Foundation “Hole in the Wall Camps”	Member of the Board of Directors
	Committee to Encourage Corporate Philanthropy	Member of the Committee
	Associazione Palazzo Strozzi	Member of the Strategic Committee and Management Committee
	Società Italiana di Filantropia	Deputy Chairman
	Progetto 10Decimi	Member of the Advisory Committee
	Comitato per la promozione del dono ONLUS	Founding member
422 Holding B.V.	Member of the Supervisory Board	
KME A.G. (1)	Member of the Supervisory Board	
<b>Diva Moriani</b>	IntekCapital S.p.A. (2)(***)	Chairwoman of the Board of Directors
	I2 Capital Portfolio S.p.A.(2)	Chairwoman of the Board of Directors
	iNTEK S.p.A. (3)	Deputy Chairwoman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)	Chairwoman of the Board of Directors
	I <sub>2</sub> Capital Partners SGR S.p.A. (1)	Chief Executive Officer

	Fondazione Dynamo	Member of the Board of Directors
	Associazione Dynamo	Member of the Board of Directors
	Meccano S.p.A.	Member of the Board of Directors
	Dynamo Accademy S.r.l.	Member of the Board of Directors
	Franco Vago S.p.A.	Member of the Board of Directors
	KME A.G. (1)	Member of the Supervisory Board
	KME Partecipazioni S.r.l. (1)	Chief Executive Officer
<b>Domenico Cova(**)</b>	KME A.G. (1)	Member of the Management Committee
<b>Riccardo Garrè</b>	KME Italy S.p.A. (1)	Member of the Board of Directors
	KME A.G. (1)	Chairman of the Management Committee
<b>Italo Romano</b>	KME Italy S.p.A. (1)	Executive Deputy Chairman of the Board of Directors
	KME A.G. (1)	Member of the Management Committee
	Istituto Italiano del Rame S.r.l.	Chairman
<b>Vincenzo Cannatelli</b>	Aledia S.p.A.	Chairman of the Board of Directors
	ErgyCapital S.p.A. (1) (3)	Chief Executive Officer
	NTV S.p.A.	Executive Deputy Chairman
<b>Mario d'Urso</b>	Fondi Gabelli (Gamco Group)	Member of the Board of Directors
	Il Sole 24 Ore S.p.A. (3)	Member of the Board of Directors
	Dynamo Camp	Member of the Board of Directors
<b>Marcello Gallo</b>	FEB S.p.A.	Chairman
	iNTEK S.p.A. (3)	Deputy Chairman of the Board of Directors
	IntekCapital S.p.A. (2)	Chief Executive Officer
	I <sub>2</sub> Capital Partners SGR S.p.A. (2)	Chief Executive Officer
	Fondazione Dynamo Onlus	Member of the Board of Directors
	ISNO 3 S.r.l. (2)	Chairman
	ISNO 4 S.r.l. (2)	Chairman
	FEI S.r.l.	Sole Director
	KME A.G. (1)	Member of the Supervisory Board
	Bredafin Innovazione S.p.A. (in liquidation)	Receiver
	Dynamo Academy S.r.l.	Member of the Board of Directors
	Associazione Dynamo	Member of the Board of Directors
	Fondazione Dynamo	Member of the Board of Directors

<b>Giuseppe Lignana</b>	Museo Nazionale del Risorgimento Italiano	Member of the Board of Directors
<b>Gian Carlo Losi</b>	KME Partecipazioni S.r.l. (1)	Chairman
<b>Alberto Pecci</b>	Gruppo Industriale Pecci	Chairman of the Board of Directors
	El.En. S.p.A. (3)	Member of the Board of Directors
<b>Alberto Pirelli</b>	Pirelli & C. S.p.A. (3)	Deputy Chairman of the Board of Directors
	Gruppo Partecipazioni Industriali S.p.A.	Member of the Board of Directors
	Camfin S.p.A. (3)	Member of the Board of Directors
	Pirelli Tyre S.p.A.	Deputy Chairman of the Board of Directors
	FIN.AP di Alberto Pirelli & C. S.a.p.a.	General partner
	Alexandria Tire Company S.A.E.	Member of the Board of Directors
	Celikord A.S.	Member of the Board of Directors
	Fondazione Pirelli	Member of the Board of Directors
	Pirelli Tyre (Pty) Limited	Member of the Board of Directors
	Dosso 5 S.r.l.	Sole Director
	Società Agricola Bosco Cotogno S.p.A.	Member of the Board of Directors
	Turk- Pirelli Lastikleri A.S.	Deputy Chairman of the Board of Directors

(1) company controlled by KME.

(2) company controlled by iNTEK.

(3) company listed in a regulated market.

(\*) served until 4 August 2011.

(\*\*) served until 22 March 2011.

(\*\*\*) the company IntekCapital S.p.A. was merged into iNTEK S.p.A. on 16.6.2011

As far as the Company is aware, none of the members of the Board of Directors or Group Executives with strategic responsibilities at group level have, in the past five years, been found guilty of fraud nor, in the performance of their duties, been associated with bankruptcy, receivership or liquidation proceedings nor, finally, have been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor prohibited by a court from membership of a board of directors, management board or supervisory board or engaging in the management of any issuer.

The Board of Directors chooses not to limit the number of positions any of its members may hold in other companies with respect to:

- • *the personal attributes and professional qualifications of its members;*
- • *the number and importance of the above-listed positions;*
- • *the high number of Board of Directors meetings attended by its members.*

### 4.2.3 Role of the Board of Directors

The Board of Directors has all of the broadest powers for the organisation and management as well as the ordinary and extraordinary administration of the Company for the achievement of its objects (art. 14 of the Company Articles of Association). It determines strategic guidelines and monitors implementation, assures management continuity and determines the powers of executive Directors (arts. 15 and 16 of the Company Articles of Association). The examination and approval of the Company's and the Group's strategic, business and financial planning, the Company's corporate governance and the Group structure are responsibilities reserved solely for the Board of Directors.

The new Code also highlights the fact that one of the main objectives of the Board of Directors is to create value over the medium-long term, and places emphasis on its duty to establish the nature and level of risk that is consistent with the strategic objectives of the Company.

The Board of Directors financial reporting responsibilities are to present:

- the separate and consolidated financial statements at 31 December;
- the interim financial statements at 30 June;
- interim directors' reports at 31 March and 30 September.

### 4.2.4 Delegation of powers

#### 4.2.4.1 Chief Executive Officers

The Board of Directors has appointed a Chairman (Salvatore Orlando) and two Deputy Chairpersons (Vincenzo Manes and Diva Moriani) and has appointed two Directors to also act as General Managers (Riccardo Garrè and Italo Romano) with non-conflicting specific responsibilities. This functional and operational policy avoids the concentration of responsibilities in one person and is in compliance with the Code of Conduct.

Pursuant to art. 20 of the Company Articles of Association, the Chairman is the legal representative of the Company and has full powers to represent the Company in dealings with third parties and in legal proceedings.

Art. 16 of the Articles of Association provides that the Deputy Chairpersons have the same powers as the Chairman in order to deal with urgent matters or to substitute the Chairman in the event of his absence and/or other impediment.

The Board of Directors has, furthermore, delegated, solely to Deputy Chairman Vincenzo Manes, the powers of:

- coordination and guidance of the activities of other executive directors;
- guidance, coordination and control of external communications including communications with Shareholders;
- in particular, including, but not limited to, and consistent with instructions and guidelines decided by the Board of Directors, all matters regarding the management of the Company's administrative, financial, control, legal, tax, insurance, human resources and information technology affairs in addition to industrial and commercial matters and services. The Deputy Chairman has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the Board of Directors strategic policies.

In exercising such powers, the Deputy Chairman may determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact with single or joint signing authorities in addition to issuing orders and requirements for the organisation and functioning of the Company. Such powers may be delegated with respect to amounts between Euro 5 million and Euro 30 million.

The Board of Directors assigned to the Deputy Chairwoman Diva Moriani the powers for the management of the Company's administrative, financial, control, legal, tax, insurance and information technology affairs in addition to industrial and commercial matters and services and also human resources and internal communication; the Deputy Chairwoman has the powers to guide and coordinate all such activities by Group companies through the relevant operational designees and always within the limits of the strategic policies decided by the Board of Directors and by the Deputy Chairman Vincenzo Manes.

In exercising such powers, the Deputy Chairwoman may determine rules for the various internal departments, assign responsibilities, appoint attorneys-in-fact with single or joint signing authorities in addition to issuing orders and requirements for the organisation and functioning of the Company. Such powers may be delegated with respect to amounts between Euro 2 million and Euro 15 million.

The General Managers have single signing authority powers with respect to the following responsibilities:

- Director Riccardo Garrè: management of the Company's and the Group's industrial and commercial operations in the copper sector within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons;
- Director Italo Romano: management of the Company's and the Group's administration, finances, planning, control and information technology within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons.

Limits are applied to the authorities of both Directors, when acting in their capacity as General Manager, ranging from Euro 1 million to Euro 10 million per transaction depending on its nature.

As noted above, Mr. Domenico Cova, engineer, resigned his positions with the Company as of 22 March 2011. Domenico Cova was assigned management of the Company's and the Group's industrial and commercial operations in the copper sector within the limits and pursuant to the guidelines established by the Board of Directors and the Deputy Chairpersons;

Due to the nature of their powers, the Deputy Chairpersons and the Directors Riccardo Garrè and Italo Romano are considered Executive Directors.

As set out in more detail in the section below on transactions with related parties, the Board of Directors has given both the Deputy Chairpersons specific powers.

#### *4.2.4.2 Reports to the Board of Directors*

Due to the fact that the two Executive Directors, who also hold the position of General Manager, are also members of the Management Board of KME A.G., which is a controlled intermediate holding company of the industrial Group operating in the copper sector, they are under an obligation to provide quarterly reports to the Boards of Directors and Statutory Auditors on the operations, outlook and significant transactions of the Company and its subsidiaries. These reports will help raise the level of awareness of the Directors and the Statutory Auditors of the situation of the company and its dynamics.

As for investments in other sectors, we note that in ErgyCapital S.p.A. as from 1 January 2011, the director Vincenzo Cannatelli, formerly Chairman of the Company's Board of Directors, was attributed operating powers and became Chief Executive Officer, while Diva Moriani, Director and Deputy Chairwoman of KME, became the Company's Chairwoman.

Ludovico Maggiore, former CEO of Drive Service S.p.A., is a member of the Board of Directors of COBRA Automotive Technologies S.p.A.

The Board of Directors is satisfied that its composition, both with respect to the number of its members and their professional attributes, is adequate for the size of the Company and is in compliance with the provisions of art. 147 ter, paragraph 4 of the TUF and of articles 3 and 4 of the new Code, due to the presence of four independent Directors (1 /3 of its members) and is thus able to adequately handle the problems it confronts. The same reasoning is also applicable to its constituent Committees.

Directors are required to provide prompt notice in the event that they no longer meet the requirement for integrity pursuant to art. 147 quinquies of the TUF.

The Board of Directors is also satisfied that the organisational, administrative and accounting structure of the Company and its strategically important subsidiaries are adequate particularly as a result of system of internal controls and the manner in which conflicts of interest are handled.

The presence of executive Directors with specific, thorough, multidisciplinary professional experience in financial, industrial and administrative matters means that all of the most important aspects of the Company's affairs are satisfactorily covered.

Non-executive Directors, in turn, make an important contribution to the Board of Directors and the Committees to which they belong in terms of their professionalism and experience.

There is no waiver to the prohibition of competition pursuant to art. 2390 of the Italian Civil Code.

#### *4.2.5 Independent Directors*

In compliance with the requirements of art. 3.C.1. and 3.C.2. of the Code of Conduct, and of arts. 147 ter, paragraph 4 and 148, paragraph 3 of the TUF and CONSOB communication DEM/9017893 of 26 February 2009, the Directors Mario d'Urso, Giuseppe Lignana, Alberto Pecci and Alberto Pirelli each confirmed that they continue to qualify as Independent Directors pursuant to the aforementioned provisions and both the Boards of Directors and Statutory Auditors are in agreement.

Although the meetings pursuant to art. 3.C.6. of the Code are not held, they have been appointed to two Committees that consist solely of non-executive and independent Directors and hold separate meetings during the year.

With respect to the independence of Alberto Pecci, it should be noted that he was appointed Director by resolution of the Shareholders at their Meeting of 28 June 1996 for the years ending 31 December 1996 and 1997 and has, therefore, held the position continuously for over nine years in apparent contradiction with the criterion for independence pursuant to art. 3.C.1. letter e) of the Code of Conduct. In addition, Mr Pecci was personally a member of the former parent G.I.M. - Generale Industrie Metallurgiche S.p.A. syndicate, and thus in conflict with the criteria set out at points a) and b) of the same article.

Similarly, there is an apparent violation of the same criteria with respect to Mr Pirelli, who was a non-executive director of G.I.M. - Generale Industrie Metallurgiche S.p.A. until its merger with iNTEK S.p.A. (31 March 2007) and mem-

ber of Pirelli & C. S.p.A. which is a member of the shareholding syndicate in G.I.M. - Generale Industrie Metallurgiche S.p.A. and KME Group S.p.A. He also joined the Board of Directors in 2000.

Following the same reasoning as applied to two members of the Board of Statutory Auditors, set out hereinafter, the Board of Directors, with the abstention of the interested parties and in agreement with the Board of Statutory Auditors, does not believe that the independence of Alberto Pecci and Alberto Pirelli is diminished and recognises, in fact and in substance, their full autonomy in reasoning and decision-making.

#### *4.2.6 Lead Independent Director*

In the understanding that the Chairman of the Board of directors is not considered to be an Executive Director and is not the controlling shareholder of the Company, the Board of Directors is satisfied that it is not necessary to appoint a “lead independent director” for the coordination of requests and contributions made by non-executive and, particularly, independent Directors because of the division of corporate responsibilities among four executive Directors and the existence of the two Committees that consist solely of independent Directors.

To this end, paragraphs C.3. and C.4 of article 2 of the New Code emphasise the importance of this appointment by the Board of Directors, therefore a choice that the Board of Directors appointed for the next three-year period 2012/2014 will have to make.

#### *4.2.7 Internal procedures of the Board of Directors*

The Board of Directors holds at least four meetings a year (art. 18 of the Company Articles of Association) which may also be held in the form of teleconferences or video conferences (art. 19 of the Company Articles of Association) and which are convened with sufficient advance notice of the agenda for the meeting (art. 18 of the Articles of Association). The relevant documentation is forwarded with due regard to the confidentiality of each of the agenda items.

In accordance with the topics on the agenda, using procedures that have become established at meetings of the Board of Directors, managers of the Company and the Group, consultants and experts and representatives of the independent auditors may be invited at the discretion of the Chairman and the Deputy Chairpersons and/or upon request by the other Directors and the Board of Statutory Auditors. The minutes of the meeting will also contain the names of these participants.

Resolutions are validly approved when a majority of serving Directors are in attendance and there is an absolute majority of votes in favour cast by the attendees. In the event of a tie, the Chairman casts the deciding vote (art. 19 of the Company Articles of Association).

In the exercise of its powers to establish Committees and to determine their responsibilities and powers (art. 14 of the Company Articles of Association), the Board of Directors has created the following Committees which, pursuant to the Code of Conduct, must consist of non-executive Board Directors:

- Internal Control Committee;
- Remuneration Committee.

The composition and function of the Internal Control Committee is illustrated below, while the Remuneration Report contains the information on the Remuneration Committee.

The Board of Directors, on the other hand, is satisfied that it is not necessary to establish an Executive Committee because it gave preference to the appointing two Directors as General Managers with specific and separate responsibilities with Deputy Chairman Vincenzo Manes coordinating their activities as well as the activities of the other Deputy Chairwoman.

An Appointments Committee was not created due to the presence of the controlling Shareholder on the Board of Directors.

However, in accordance with the new provisions of the Code of Conduct, the Board of Directors that will be appointed for the three-year period 2012/2015 will have to make a decision on its creation, considering that it has different functions from the previous body, more specifically:

- opinions on the size and composition of the Board of Directors;
- proposals for the appointment of candidates to the position of director if co-opting is necessary when replacing independent directors;
- preparation of a plan for the replacement of executive directors.

The Board of Directors met 7 times this year, i.e. once more than the previous year.

Four further meetings were scheduled for this year, as specified below:

- 28 March (examination of draft financial statements);
- 14 May (examination of the 31 March interim directors' report);
- 3 August (examination of the interim financial statements at 30 June);
- 13 November (examination directors' report as at 30 September).

As of the present date, 2 meetings of the Board of Directors have been held which had not been scheduled in the above list.

Meetings scheduled for the year are advised in January of each year and published on the Company's website.

Although the number of meetings attended by each Director are analysed in the table at the end of this Report, you are advised that attendance record for Directors and Statutory Auditors was 93% (compared to 92%) and 71% (compared to 78%), respectively; all absences were excused.

#### *4.2.8 Processing of company information*

In order to demonstrate that markets must be promptly, fully, adequately and not selectively notified of corporate actions, the Company adopted the "Code of Conduct regarding Information on Important Corporate Actions" in 2002 as recommended by the Code of Conduct and in compliance with the principles of Borsa Italiana's guidelines for market information.

The subsequent amendments introduced by legislation in connection with the TUF and by CONSOB and, therefore, Borsa Italiana S.p.A. rules led to its revision in March and November 2006 and again in November 2007. As a result of the reworded art. 114 of the TUF and in compliance with the art. 115 bis of the TUF, the so-called "relevant persons" identified with access to so-called "privileged information" are recorded in an electronic register created on 1 April 2006.

The procedure requires first and foremost that Directors and Statutory Auditors observe the confidentiality of privileged information which is also required of other persons with access to such information and ensuring that such information is only processed by persons aware of the nature and need for compliance and who have knowledge of the procedures required by CONSOB and Borsa Italiana S.p.A.

#### *4.2.8.1 Transactions with related parties*

Directors holding delegated powers notify transactions entailing potential conflicts of interest to the Board of Directors and the Board of Statutory Auditors as required by art. 14 of the Company Articles of Association.

The internal Rules adopted in March 2003 and first revised in November of the same year and then in 2005 and 2006 and finally on 11 November 2010 implement statutory requirements and comply with the Regulation adopted by CONSOB in its resolution no. 17221 of 12 March 2010 (hereafter the “Related Parties Regulation”) which in particular requires that transactions with related parties, which are realised directly or through subsidiaries, must be carried out in compliance with the principles of:

- transparency;
- correctness in substance;
- correctness in procedures.

The Board of Directors believes that these procedures are sufficient to manage any conflicts of interest.

Here below are the most important provisions of the Rules which are available in full in the specific section of the Company website.

##### *4.2.8.1.1 Identification of parties*

Related parties are those indicated by CONSOB, but the Board of Directors has identified as further “executives with strategic responsibilities” (under the corresponding CONSOB definition contained in the “Related Parties Regulation”) also the executive directors of KME A.G. and ErgyCapital S.p.A. extending application of the procedure to them.

The Directors and the Statutory Auditors of the Company, where they have an interest, either on their own behalf or on that of third parties, must inform the Board of Directors of this, in the person of its Chairman, detailing its nature, timeframes, origin and weight. Those Directors who have such an interest are also obliged to abstain from voting regarding it and they must absent themselves during the related procedure, except in the case where a different and unanimous resolution is passed by the Board of Directors regarding it.

An internal procedure is envisaged to draw up, manage and maintain the list of related parties and the list is updated every six months taking into account the information received from the Directors and the Statutory Auditors, as well as from the other executives with strategic responsibilities.

Group companies are required to comply with the internal Rules and ensure the flow of information to the Company.

#### 4.2.8.1.2 Identification of transactions

“Transactions with related parties” means any transfers of resources, services or obligations between related parties, regardless of the fact that the action has been carried out for consideration.

This includes:

- merger, demerger or strictly non-proportional demerger transactions, if carried out with related parties;
- any decision on the allocation of compensation and economic benefits, in whatever form, for members of the administrative and control bodies and managers with strategic responsibilities.

In compliance with the indications in the CONSOB Regulation and its attachments, transactions are divided into:

- important transactions;
- less important transactions;
- exempt transactions.

#### 4.2.8.1.3 Internal Control Committee

The Internal Control Committee, which is appointed by the Board of Directors and consists solely of independent and non-executive directors:

- watches over the fact that the procedures regarding transactions with related parties conform to the related legislative and regulatory measures that are applicable to them, as well as the fact that they are fully observed in practice.
- provides the Board of Directors with its opinion regarding the Company’s interest in undertaking transactions with related parties as well as regarding the cost-effectiveness and correctness of the related conditions.

Regarding important transactions, the Committee must be involved in both the investigative and negotiation stages through the complete and speedy receipt of all the related information.

The Committee has the discretionary power of being able to ask for information and making its comments to the delegated bodies and the parties assigned to carry out the related negotiations, as well as being assisted by its own independent experts, at the Company’s expense, for the purpose of evaluating the characteristics of the transaction.

Regarding the compensation of the executives who have strategic responsibilities for the Company and the Group, the competencies foreseen by the Related Parties Regulation for the Internal Control Committee are exercised by the Remuneration Committee to which the same provisions envisaged for the Internal Control Committee are applied and its decisions are communicated to the Internal Control Committee for the purpose of ensuring the best possible coordination between the two bodies.

The Chairman of the Board of Directors and the Chairman of the Board of Statutory Auditors are invited to take part in the Committee meetings. Executives, members of the administration and controls bodies of subsidiaries and associates, their executives, as well as representatives of the Independent Auditors may also be invited.

The resolutions of the Committee are validly passed with a majority vote and specific alternative procedures are envisaged for transactions in which members of the Committee are related parties.

The Minutes of the Committee meetings are drafted by the Secretary to the Board of Directors and, where applicable, must contain the reasons for the assumption that it is in the Company's interest to carry out the transaction, as well on the basic appropriateness and correctness of the related conditions.

Important transactions are submitted for the prior approval of the Board of Directors that passes a resolution on them, observing the procedures laid down by article 19 of the Articles of Association, after having heard the reasoned opinion of the Internal Control Committee on the Company's interest in carrying out the transaction, as well as on the basic appropriateness and correctness of the related conditions.

The Committee's opinion is binding, with the warning that important transactions that have not had prior approval from the Committee cannot be carried out by the Board of Directors.

If the Board of Directors intends to carry out such a transaction without prior approval, it must call an ordinary Shareholders' Meeting, without delay, putting the approval of said transaction onto the meeting agenda. The Shareholders' Meeting passes valid resolutions regarding this with the majorities laid down by the Articles of Association.

The transaction is held to be not approved and, therefore, cannot be carried out, only if the majority of the voting non-related shareholders cast their votes against the transaction and if the non-related shareholders present at the Shareholders' Meeting represent at least 10% of the share capital with voting rights.

The less important transactions referred to in article 11 of the internal Rules are examined and resolved upon by the competent Company body in accordance with the related procedures currently in force.

#### *4.2.8.1.4 Powers of the Deputy Chairpersons*

The procedure envisages that Deputy Chairman Vincenzo Manes and, in the case of his absence or impediment, or where urgency is required, the Deputy Chairwoman Diva Moriani and as long as they, individually, have no conflict of interest regarding the transaction in question, have the power to approve transactions of the Company and its subsidiaries for an amount that is no higher than Euro 5 million.

Furthermore, the corresponding transactions of a higher amount than Euro 5 million as well as those for a lesser amount for which there exists a conflict of interest involving the Deputy Chairperson called upon to approve them, must be submitted to the Board of Directors for its prior approval.

In both cases the transactions must be submitted for the prior, non-binding and reasoned approval of the Internal Control Committee regarding the interest in carrying out the transaction, as well as regarding the basic appropriateness and correctness of the related conditions.

In the case of transactions that fall within the scope of those decisions reserved for the Deputy Chairperson and regarding which the Committee has expressed a negative reasoned opinion, the Deputy Chairperson called upon to approve them must, without delay, inform the Chairman of the Board of Directors, who then has to inform the other Board members. Each one of the non-executive members of the Board of Directors, excluding the members of the Internal Control Committee, has the faculty of being able to call a meeting of the Board, within three days, for the purpose of passing a resolution regarding the approval of this type of transaction.

#### 4.2.8.1.5 Exempt transactions

The internal Rules are not applicable to the following:

1. resolutions regarding the compensation of those directors invested with special duties, which fall within the total amount approved, in advance, by the Shareholders' Meeting pursuant to article 2389, paragraph 3, of the Italian Civil Code;
2. transactions of less than Euro 100,000.00 with physical persons and no higher than Euro 500,000.00 with other persons, as long as they do not present any risks linked to the characteristics of the transaction itself and also with the requirement that these transactions cannot have a significant impact on the financial position of the Company;
3. "Incentive Plans", based on financial instruments, approved by the Shareholders' Meeting, pursuant to article 114 bis, of the TUF (Consolidated Finance Act) and the related executive transactions;
4. resolutions regarding the compensation of directors invested with special duties, other from those in point 1 above, but only in the case where the conditions laid down by the measures regarding this matter as set out in article 13, paragraph 3, letters a) and b) of the Related Parties Regulation are observed;
5. ordinary transactions finalised at conditions equivalent to normal market conditions, or standard practice;
6. transactions with, or between, subsidiaries, as well as transactions with associates as long as, within the subsidiaries or associates that are the counterparts to the transaction, there are no interests, qualified as significant pursuant to the internal Rules, of other related parties of the Company.

Since important transactions are not subject to the obligation of publication in the "Information Document" pursuant to the applicable provisions, the Company shall:

1. communicate to CONSOB, within the timeframes laid down by the applicable measures, the name of the counterpart, the subject and the amount of the transactions.
2. show in the Interim and Annual Directors' Reports which transactions, subject to the information obligations, have been finalised while taking advantage of the exclusion.

For the purposes of the non-application of the internal Rules, the following shall not be considered to be "significant interests":

1. the mere sharing of one or more directors, or executives with strategic responsibilities, between the Company and subsidiaries and associates;
2. the existence of relations of an equity nature, excluding those referred to in the following point 3 and, in general, those arising from the compensation of executives with strategic responsibilities that is no greater than Euro 200,000.00, calculated cumulatively on a yearly basis, between subsidiaries and associates, on the one hand, and other related parties of the Company, on the other hand and that, in any case, impact, or are impacted by, the transaction in question;
3. the existence of Incentive plans based on financial instruments or, in any case, on variable compensation, which depend upon the results achieved by the subsidiaries or associates with which the transaction has been carried out and whose beneficiaries are directors or executives with strategic responsibilities, also of the Company, and when the transaction in question is less than 5% of the results achieved by the subsidiaries and associates, on which the incentives are calculated;

4. when the subsidiary or associate is invested in by the party that controls the Company, if the effective weight of that equity investment is not higher than the effective weight of the equity investment owned by the same party in the Company.

Whenever it is foreseen that a series of homogenous transactions will be carried out with specific categories of related parties within the same year, they can all be authorised by a “Framework Resolution”.

#### *4.2.8.1.6 Information*

The Company supplies information, in its Interim and Annual Reports, regarding the following matters:

- 
- on the individual important transactions finalised during the accounting period;
- on any other individual transactions with related parties, as defined pursuant to article 2427, paragraph 2, of the Italian Civil Code, also finalised during the accounting period, which have had a relevant impact on the financial position, or on the results of operations, of the Company;
- on any change or development regarding transactions with related parties, which were described in the last Annual Report and that have had a relevant impact on the financial position, or on the results of operations, during the accounting period.

In the case of a negative opinion by the Committee regarding a less important transaction, the Company shall make publicly available, within 15 days from the closing date of each quarter of the financial year and observing the conditions, terms and methodologies of the CONSOB Regulations, a “Document” containing the description of the aforesaid transaction.

Each quarter both the Board of Directors and the Board of Statutory Auditors must receive from the executive directors of the Company, a specific information report regarding the transactions with related parties that are not subject to the prior approval of the Board of Directors. The information report must explain the nature of the relationship, the conditions, specifically the economic conditions, the methodologies and the timeframes for the completion of the transaction, the evaluation procedure followed, the interest and the motivation underlying it and the reasons for it.

Furthermore, there must also be supplied a specific information document regarding the carrying out of those transactions that have had the prior approval of the Board of Directors, also through “Framework Resolutions”.

When important transactions take place, also when carried out by Italian and foreign subsidiaries, pursuant to article 114, paragraph 5, of the TUF, an “Information Document”, is drawn up in conformity with Attachment 4 of the Related Parties Regulation, and is attached to the internal Rules as letter c) and forms a substantial part of them.

#### *4.2.8.1.7 Procedure for verifying the Rules*

The Board of Directors will periodically check the effectiveness of the procedure that has been put in place and, in any case, see to it that it is reviewed together with the Board of Statutory Auditors every two years, while there always remains the possibility of making more timely and speedy interventions, for the purpose of ensuring the highest possible level of efficiency of the internal Rules.

#### *4.2.8.1.8 Proposals to modify the Rules*

Articles 10 (Calling Meetings) and 14 (Company Management) of the Articles of Association permit the Board of

Directors to carry out the operation with the related parties immediately in accordance with the terms provided in the Related Parties Regulation if it is urgent and cannot be submitted for approval to the Shareholders' Meeting.

If the transaction is then carried out by a subsidiary, the Board of Directors must be informed at its next meeting. In addition, given transactions to be put to the approval of the Shareholders' Meeting which are urgent and which are connected to critical situations in the Company, the transaction may be carried out by way of exception to the relevant provisions, provided that, at the subsequent Shareholders' Meeting called to pass resolutions in this regard, the provisions envisaged by the Related Parties Regulation for such situations are applied.

#### *4.2.9 Composition and functioning of Board of Directors constituent Committees*

##### *4.2.9.1 Remuneration Committee*

It should be noted that in March 2010 a new text was adopted for art. 7 of the Code of Conduct which deals with "remuneration" and which states that the Remuneration Committee consists of the directors Alberto Pirelli (Chairman), Mario d'Urso and Giuseppe Lignana, all of whom are non-executive and independent.

Considering the new legislation on the matter as noted above, please refer to the "Remuneration Report".

##### *4.2.9.2 Internal Control Committee*

The Internal Control Committee is appointed by the Board of Directors and is responsible for the system of internal controls. The members of the Committee are the Directors Mario d'Urso (Chairman), Giuseppe Lignana and Alberto Pecci.

All three members are non-executive, independent Directors with professional experience including accounting and finance deemed by the Board of Directors to be appropriate.

As already noted, the Internal Control Committee watches over the fact that the procedures regarding transactions with related parties conform to the related legislative and regulatory measures that are applicable to them, as well as the fact that they are fully observed in practice.

Further information regarding the Committee's activities is contained in the section entitled "Proceedings of the Internal Control Committee".

In accordance with the new provisions of the Code of Conduct, the Committee will take on the new name of "Control and Risk Committee" during the year.

#### *4.3 Board of Statutory Auditors*

The Board of Statutory Auditors oversees compliance with the law and the Company Articles of Association with respect to the propriety of administration and, particularly, the adequacy of the organisational, administration and accounting structure of the Company as it actually functions.

##### *4.3.1 Composition of the Board of Statutory Auditors*

The current Board of Statutory Auditors was appointed by iNTEK S.p.A. (the then majority shareholder of the Company with 53.58% of voting capital) and appointed by the Shareholders at their Meeting on 29 April 2009 for 2009, 2010 and 2011 with their appointment terminating on the date of the Shareholders' Meeting held to approve the financial statements as at and for the year ending 31 December 2011.

Shareholders resolved to unanimously elect the nominees with 55.42% of voting capital in attendance.

None of the Statutory Auditors, therefore, was appointed from a list submitted by a non-controlling Shareholder, which, pursuant to art. 22 of the Articles of Association, would be the highest non-controlling shareholding in accordance with arts. 147 ter, para. 1 of the TUF and 144 quater of the Issuers Regulation, which is currently identified at 4.5%, as per CONSOB Resolution no. 18083 of 25 January 2012.

The Board is composed of three Standing Auditors and two Alternates. As with the Directors, their names are included in the documentation provided by the Company. A brief curriculum vitae follows for each of Statutory Auditors which is also available at [www.kme.com](http://www.kme.com):

**Marco Lombardi (Chairman)**

Marco Lombardi was born in 1959 and holds a degree in Political Sciences and is a registered certified accountant and Auditor with a professional practice in Florence. He also holds positions on other Boards of Statutory Auditors and acts at times on behalf of the courts and has also published several papers on taxation.

He joined the Board of Statutory Auditors on 1 September 2008.

**Pasquale Pace (Standing Auditor)**

Pasquale Pace was born in 1938 and holds a degree in Business Administration and is a registered certified accountant and Auditor with a professional practice in Bari. He also holds positions on other Boards of Statutory Auditors and, moreover, acts on behalf of the courts. He is a registered court technical expert with respect to administrative and criminal law.

He joined the Board of Statutory Auditors on 19 May 2006.

**Vincenzo Pilla (Standing Auditor)**

Vincenzo Pilla was born in 1961 and holds a degree in Economics and Business and is a registered certified accountant and Auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters. He also holds positions on other Boards of Statutory Auditors, including Group companies and acts on behalf of the courts.

He joined the Board of Statutory Auditors on 29 April 2009.

**Lorenzo Boni (Alternate Auditor)**

Lorenzo Boni was born in 1968 and holds a degree in Economics and Business and is a registered certified accountant and auditor with a professional practice in Florence. He is the author of publications and papers on company and tax matters and also engaged in activities at the University of Florence.

He was appointed for the first time as Alternate Auditor on 29 April 2009.

**Angelo Garcea (Alternate Auditor)**

Angelo Garcea was born in 1969 and holds a degree in Economics and Business and is a registered certified accountant and Auditor with a professional practice in Florence. He is the author of numerous papers on taxation.

He was appointed for the first time as Alternate Auditor on 28 October 1999.

As far as the Company is aware, none of the members of the Board of Statutory Auditors has, in the past five years, been found guilty of fraud nor, in the performance of his duties, has been associated with bankruptcy, receivership

or liquidation proceedings nor, finally, has been formally indicted or sanctioned by public or regulatory authorities (including professional associations) nor has been prohibited by a court from membership of a board of directors, management board or supervisory board or engaging in the management of any issuer

Art. 22 of the Company Articles of Association, which is entirely dedicated to the Board of Statutory Auditors, sets out the requirements in addition to the procedure for their appointment which includes:

- the submission of a list for the appointment and the curriculum vitae of each candidate at least 25 days before the Shareholders' Meeting in first call and so made available at least 21 days beforehand at the Company offices, on the Company website and through Borsa Italiana S.p.A.;
- if only one list has been presented within this deadline, or lists that are linked in accordance with prevailing law, lists may be filed up to the third day prior to the date of the meeting. In this case, the threshold is halved;
- the addition to the list of one alternate auditor designated by non-controlling Shareholders as a substitute, if required, for the standing auditor also selected from a non-controlling Shareholder list;
- in the event of a tie in the votes for two or more lists, the auditors in the list submitted by the Shareholder with the largest shareholding or, if this is not possible, the highest number of Shareholders, shall be deemed elected.

In particular, it is noted that in accordance with arts. 148 bis of the TUF and 144 terdecies of the Rules, Statutory Auditors may not hold more than five positions as Statutory Auditor in issuers.

The requirements of the Company Articles of Association with respect to the appointment of Statutory Auditors are available at [www.kme.com](http://www.kme.com) and we would remind you that the procedure has been updated and made compliant with the new provisions by means of the resolutions of the Board of Directors' meeting of 11 November 2010 and of the Shareholders' Meeting of 28 April 2011.

On appointment to the Board of Statutory Auditors, each member represents to be in possession of the prerequisites of professionalism and integrity required by regulation and the Company Articles of Association and to not be subject to any of the impediments listed in art. 148 of the TUF and undertakes to notify the Company within thirty days of any changes. The Boards of Directors and of Statutory Auditors verify on a yearly basis that each of their members still qualifies as independent in accordance with law and arts. 10.C.2. and 3.C.1., letter c) of the Code.

This verification was of particular relevance to the Chairman of the Board of Statutory Auditors, Marco Lombardi, and the Standing Auditor, Vincenzo Pilla due to the fact that they are members of other boards of Statutory Auditors.

The Board of Statutory Auditors, with the abstention of the interested parties, was of the opinion that their situation did not limit their independence because of their personal attributes and due to the fact that the memberships were not material seen within the overall context of their professional activities.

This assessment is also confirmed in the ethical conventions in force as from 1 January 2011 and approved by the Italian accounting profession, which invite the Board of Statutory Auditors to verify the existence of a "concrete threat" to the independence of its members on a case by case basis and on the basis of an assessment of the risks which may compromise its integrity and objectivity.

The Board of Statutory Auditors consequently announced the findings of the verification that was also conducted for the purposes of art. 149, paragraph 1, letter c bis of the TUF requiring verification of the actual implementation of the Code of Conduct.

Other positions as board directors and statutory auditors held by the Company's Statutory Auditors held at other companies or in the Group are shown below and were provided to Shareholders when the Statutory Auditors were appointed. Their current number and importance for each auditor are below the thresholds envisaged by CONSOB and by the aforementioned ethical conventions.

The Board of Statutory Auditors will carry out its activities validly, will take part in the meetings of the Board of Directors and the other Committees, coordinating its activities with the internal audit function in particular, and with the Internal Control Committee. In addition, the Board of Statutory Auditors has acquired and developed its capacity to interact on a continuous basis with Company departments, which it does directly and completely independently.

Its relationship with the independent auditors is collaborative and entails the exchange of information.

In that connection, furthermore, the Board of Statutory Auditors oversees the independence of the independent auditors and confirmed in its Reports on the separate and consolidated Financial Statements that no other mandates had been concluded with the independent auditors either by the Company or the Group with the exception of those indicated in its Reports on the separate and consolidated Financial Statements.

We note that the Directive 2006/43/EC on the legally-required audit introduced into the organisation of listed companies, i.e. the "Internal Control and Audit Committee", a body identified with the Board of Statutory Auditors, with oversight of:

- financial reporting;
- the effectiveness of systems of internal control, internal audit and risk management;
- the legally-required audit of annual and consolidated financial statements;
- the independence of Auditors.

In accordance with the new provisions on remuneration, payments made to the Statutory Auditors are shown in the table drawn up in accordance with CONSOB provisions (or "Schedule 1" of attachment 3C of the Issuers' Regulations) contained in the Remuneration Report.

The Board of Statutory Auditors met seven times during the year as it did during the previous year. Its members' rate of attendance was 90.5% (compared to 95%).

Set out below is a table showing the positions held by each Statutory Auditor as director or statutory auditor at 31 December 2011 in joint-stock companies, limited partnerships and private limited companies.

<b>Name</b>	<b>Company</b>	<b>Position</b>
<b>Marco Lombardi</b>	RECS S.r.l.	Sole Director
	Brandini S.p.A.	Chairman of the Board of Statutory Auditors
	D&D La Certosa Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	Associazione Palazzo Strozzi	Chairman of the Board of Statutory Auditors
	SAIF S.r.l.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. (1)	Standing auditor
	Grifoni & Masini S.p.A.	Standing auditor
	Casasole S.p.A.	Standing auditor
<b>Pasquale Pace</b>	Baia San Giorgio – Villaggio turistico sportivo San Giorgio S.r.l.	Chairman of the Board of Statutory Auditors
	Primiceri S.p.A.	Chairman of the Board of Statutory Auditors
	Fidanzia Sistemi S.r.l.	Standing auditor
	Marzocca S.r.l.	Standing auditor
<b>Vincenzo Pilla</b>	KME Recycle S.p.A. (1)	Chairman of the Board of Statutory Auditors
	EL.EN. S.p.A. (2)	Chairman of the Board of Statutory Auditors
	Deka Mela S.r.l.	Chairman of the Board of Statutory Auditors
	Lasit S.p.A.	Chairman of the Board of Statutory Auditors
	Affitto Firenze S.p.A.	Chairman of the Board of Statutory Auditors
	KME Italy S.p.A. (1)	Chairman of the Board of Statutory Auditors
	Cut Lite Penta S.r.l.	Standing auditor
	Geikos S.p.A.	Standing auditor
	S.A.I.F. S.r.l.	Standing auditor
<b>Lorenzo Boni</b>	KME Italy S.p.A. (1)	Standing auditor
<b>Angelo Garcea</b>	Polimoda Consulting S.r.l.	Chairman of the Board of Statutory Auditors

(1) company controlled by KME.  
(2) company listed in a regulated market.

#### 4.4 Shareholders' Meetings: powers, procedures and rights other than those provided by law

The Shareholders' Meeting's powers and responsibilities are those set out in the Italian Civil Code and the TUF.

The transposition of EU Directive no. 36/2007, commonly known as the "shareholders' rights directive", has profoundly changed the provisions regarding the involvement of shareholders in the activities of listed companies.

The Shareholders' Meeting in fact now consists of those who have voting rights and whose prepared communication, sent by authorised intermediaries, has reached the company, pursuant to the provisions in force, on the basis of the entries in the accounting records relating to the end of the accounting day on the seventh day of trading prior to the date set for the Shareholders' Meeting in first call, and which has reached the company within the legal deadlines.

The resulting changes have already been introduced into the Articles of Association and internal procedures, and are aimed at confirming and ensuring equality of treatment to all the Shareholders in the same position as regards their shareholdings and the exercise of the right to vote at Shareholders' Meetings.

The Company Articles of Association (arts. 2 and 14) empower the Board of Directors to determine the registered and any secondary offices, to approve mergers and demergers of subsidiaries, to reduce share capital in the event of a withdrawal by a Shareholder and to comply with regulatory provisions and to be competent for particular cases regarding transactions with related parties, naturally in compliance with the exceptions allowed by the laws in force.

We note that art. 10 of the Articles of Association envisaged that the call of the meeting be made via publication on the Company's website, but that it has also been decided to still publish the related announcement in a newspaper (which are currently: "Il Sole 24 Ore" - "MF / Milano Finanza" - "Italia Oggi"), in addition to the announcement in the Official Gazette.

In any case, we note that the website [www.kme.com](http://www.kme.com) contains a specific area dedicated to corporate governance and is constantly renewed and updated. For the Shareholders' Meetings, part of the website has been dedicated to the related documentation, including not only the documentation on the items on the agenda but also that for the exercise of Shareholders' rights as envisaged by art. 125 quater of the TUF, such as, for example, the format for proxy voting, the documentation for the appointment of the Designated Representative, and that for voting by correspondence. The ways to ask questions during a Meeting and how to ask for additions to be made to the Agenda are shown in the same area.

As regards the provisions for the deposit of shares in order to participate at Shareholders' Meetings, art. 11 (Participation and representation at Shareholders' Meetings) of the Articles of Association includes the principle of the "record date", and is a revolution compared to the previous procedure. Effectively participation at Shareholders' Meetings is now connected to the entries in the accounting records as at the seventh open trading day preceding the date set for the Shareholders' Meeting in first call.

We also note the new provisions regarding the issue of proxies and electronic notification of the same which are contained in art. 11 of the Articles of Association.

This article in the Articles of Association contain the provisions on how to exercise the vote by correspondence.

The other methods of participating in Shareholders' Meetings are contained in art. 10 (Calling of Shareholders' Meetings) of the Articles of Association, particularly with reference to the protection of non-controlling Shareholders with respect to the appointment of Directors and Statutory Auditors.

In a departure from the Code, the Company has decided to dispense with Shareholder Meeting Rules and Regulations due to the existence of the provisions of Chapter III of the Company Articles of Association, attached to this Report and available on the Company's website in the *Investor relations - corporate governance - articles of association sec-*

tion. Greater details on participation at the specific meeting and the right to ask questions can be found in the same area with reference to upcoming Shareholders' Meetings.

In that connection, art. 12 (Chairmanship of the Shareholders' Meeting) of the Articles of Association expressly requires the Chairman of the Shareholders' Meeting to assure the propriety of the proceedings by directing and regulating deliberations and limiting the length of individual contributions.

Savings Shareholders are not permitted to participate in meetings of ordinary Shareholders.

Each share carries unrestricted voting rights unless otherwise provided by law.

In 2011, one ordinary and extraordinary Shareholders' Meeting was held on 28 April.

#### *4.4.1 Company Articles of Association and protection of non-controlling Shareholders*

Unless otherwise provided by law or the Articles of Association, the Company Articles of Association may not be amended unless approved by Shareholders' resolution in the manner and with the majority prescribed by legislation.

The Company Articles of Association contain provisions for the protection of non-controlling Shareholders with respect to the calling of Shareholders' Meetings, inclusion of agenda items (art. 10) and appointment of the Boards of Directors (art. 17) and Statutory Auditors (art. 22) the appointment of proxies, voting by mail (art. 11), the Board of Statutory Auditors reporting requirements (arts. 14 and 18) and the Joint Representative of Savings Shareholders (art. 24).

In particular, arts. 17 (Appointment and Composition of the Board of Directors, term of office of members) and 22 (Board of Statutory Auditors) of the Company Articles of Association were amended in 2007 through the introduction of non-controlling Shareholders' voting lists.

Among the changes to the Articles of Association applied in 2011 (respectively art. 13 and art. 5) are mention of the right of Shareholders to put forward questions before the Shareholders' Meeting (art. 125 bis, para. 4, lett. b), no. 1) of the TUF) and the right to require identification of Shareholders (art. 83 *duodecies* of the TUF).

##### *4.4.1.1 Additions to the Agenda*

Art. 10 of the Articles of Association highlights, in compliance with art. 126 bis of the TUF, that shareholders who represent at least one fortieth of the share capital may ask, within 10 days of publication of the call notice for the Shareholders' Meeting, for an addition to the list of items to be addressed. The request must be presented in writing and must contain an indication of the items to be addressed.

The request for an addition is published in the same way as the call notice within the legal deadlines.

Agenda items may not be added with respect to matters for resolution by Shareholders as required by law, proposed by Directors or with reference to a project or report proposed by Directors, other than those specified in art. 125 ter, paragraph 1 of the TUF.

##### *4.4.1.2 Request to call Shareholders' Meeting*

As noted by art. 10 of the Articles of Association, and as envisaged by art. 2367 of the Italian Civil Code, Shareholders who represent a twentieth of the share capital in terms of ordinary shares can ask the Chairman of the Board of Directors to call a Shareholders' Meeting.

The request must be made by registered post and must contain the list of the items to be included on the Agenda and the detailed list of those requesting the meeting, attaching a copy of the communication issued by the authorised intermediaries bearing witness to ownership of the shares and their number.

#### *4.5. System of Internal Controls*

In accordance with the new provisions of the Code of Conduct, the system will take on the new name of “INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM” during the year.

##### *4.5.1 Proceedings of the Internal Control Committee*

The Internal Control Committee is responsible for fixing the guidelines and areas of internal controls for the identification and management of the principal risks to which the Company is exposed. It consequently:

- assists the Board of Directors in the execution of its duties with respect to internal control;
- assesses, together with the Manager Responsible for Financial Reporting and the internal auditors, the correct application of accounting policies and their consistency for the purposes of presenting consolidated financial statements;
- opines, at the request of the executive Director responsible for the system of internal controls, on specific aspects of the identification of the principal risks to which the Company is exposed in addition to planning, implementing and managing the system of internal controls;
- examines the internal audit plans and the periodic reports prepared by the internal control officers;
- assesses the independent audit plan and the findings reported and any letters of recommendations;
- oversees the effectiveness of the process of auditing the financial statements.

The Committee has access to the information required for its work and reports on its activities to the Board of Directors at least once every six months.

The Chairman, Deputy Chairman Vincenzo Manes and the Director and General Manager Italo Romano (the last two with respect to their specific responsibilities for internal control) and the Chairman of the Board of Statutory Auditors (or any other standing auditor designated by that Chairman) are invited to attend the Committee’s meetings.

The Committee met twice in 2011, as in 2010, and 67% of their members was present. The Chairman of the Board of Statutory Auditors was present at both meetings which were minuted. It already met four times in 2012; there is no calendar provided setting out its upcoming meetings.

The Board of Directors is satisfied that the Company’s system of internal controls is, as required by art. 8 of the Code, adequate for the types of risks typical of the Company’s business and is sufficient to safeguard the Company’s assets, the efficiency and effectiveness of its operations, the reliability of financial information and compliance with laws and regulations.

##### *4.5.2 Executive director responsible for the system of internal controls*

The Deputy Chairman, Vincenzo Manes, is responsible for overseeing the system of internal controls.

##### *4.5.3 Head of Internal Control*

The appointment of the Head of Internal Control has been delegated by the Board of Directors to the Deputy Chairperson

to whom the Head reports. Organisationally, the Head of Internal Control is independent of all operational units and, in turn, has no operational responsibilities.

His work corresponds to internal auditing, thereby complying with the provisions in the new Code of Conduct to this effect.

The Head of Internal Control has direct access to all information required for the performance of his duties which are the verification and assessment of the adequacy and effectiveness of the Company's system of internal controls and the compliance of the operations of the various units of the Company with procedures, corporate policy, laws and regulations as may be in force from time to time, particularly with respect to the reliability and integrity of information processed, the safeguard of the Company's assets and, together with the Manager Responsible for Financial Reporting, the adequacy and consistency of accounting policies for the purposes of presenting financial statements.

#### *4.5.4 Internal Audit*

The Head of Internal Control is responsible for internal controls as well as internal audit.

#### *4.5.5 Role of the Board of Directors with respect to the system of internal controls*

As required under criterion 8.C.1 of the Code, the Board of Directors defines the guidelines for the system of internal controls in such a manner as to assure the principal risks to which the Company and its subsidiaries are exposed are correctly identified and monitored in accordance with sound management practices.

#### *4.5.6 Manager Responsible for Financial Reporting*

At its meeting of 29 April 2009 and in accordance with the provisions of art. 16 of the Company Articles of Association and after having ascertained the possession of the Directors' necessary professional and personal attributes and the individual's integrity, the Board of Directors, with the agreement of the Board of Statutory Auditors, re-appointed Marco Miniati as the Manager Responsible for Financial Reporting, who was originally appointed on 21 June 2007. Mr. Miniati was made responsible for the performance of the relevant duties and was given all necessary powers for which he is separately remunerated.

Marco Miniati was born in 1960 and has been a Group Executive since 1997. His activities have been focused on the control of operations of the French and German companies. He became the General Manager of Administration, Controlling & Planning in 2005.

The term of the appointment is the same as that for the Board of Directors, in other words to the date of the approval of the financial statements as at and for the year ending 31 December 2011.

The first declaration pursuant to art. 154 bis, paragraph 2 of the TUF was made by the then Manager Responsible with respect to the quarterly report of 30 September 2007, with the first statement pursuant to paragraph 5 of the same article having been made with respect to the financial statements as at and for the year ended 31 December 2007.

The Manager Responsible provides periodic reports to the Internal Control Committee and the Board of Statutory Auditors on his work and has an ongoing relationship with the independent auditors.

The Board of Directors annually checks possession of the necessary prerequisites for the Manager Responsible.

#### *4.5.7 Risk management system with respect to financial reporting*

To assure compliance with art. 123 bis, paragraph 2, letter b) regarding the reliability of separate and consolidated financial statements, the Company, in December 2006, had the internal audit department undertake a project under the supervision of the Internal Control Committee and with the assistance of Ernst & Young to verify the system of internal controls over the Group's financial reporting in order to assure consistence with international financial reporting standards and compliance with the requirements of the "Law on Saving" 262/05. The project was fully completed and implementation verified for the 2008 financial statements.

KME's risk management system should not be seen in isolation from the System of Internal Controls since both are components of the same system.

The purpose of the system is to assure the reliability, accuracy, and timeliness of financial reporting.

The Company's guidelines for the development, implementation, monitoring and updating of the system over time are based on recognised international best practice (*Committee of Sponsoring Organisations of the Treadway Commission - COSO Report*) that defines Systems of Internal Controls as the combination of rules and procedures, techniques and tools used to manage the company to assure the achievement of its objectives.

The principles followed in accordance with the COSO Report are those to assure: a) the efficiency and effectiveness of operations; b) accuracy of financial reporting; and, c) compliance with laws and regulations.

The COSO Report also sets out the essential components of an effective System of Internal Controls:

- *control environment*: the basis of the System of Internal Controls characterised by the sensitivity of the Company's senior management to procedures and structure (formalisation of job descriptions, responsibilities, internal communication systems and the timeliness of information) consistent with corporate strategies and objectives;
- *risk assessment*: management's identification and analysis of risks inherent in the achievement of predefined objectives as well as the determination of risk management methods;
- *control activities*: the methods, procedures and practices used to define and implement the organisation's controls for the purposes of mitigating risks and assuring the achievement of targets set by management;
- *information and communication*: the provision of support for all other aspects of control by communicating control responsibilities to personnel and by providing information in the form and at the time required for individuals to continue their work;
- *monitoring*: the activity performed by various parties in the company for the ongoing control of the propriety of the System of Internal Controls in order to overcome critical contingencies and to prepare for the maintenance, updating and improvement of the System.

#### *4.5.7.1 Description of the key aspects of the existing risk management system and the system of internal controls in connection with financial reporting*

##### *a) Description of the key aspects of the existing risk management system and the system of internal controls in connection with financial reporting*

- *Identification of financial reporting risks*: KME Group S.p.A. has determined the units and processes at risk in terms of the potential impact on financial reporting in addition to the consequent risk of not achieving control objectives (e.g., the assertions of financial statements and other objectives of financial reporting). These risks relate to unintentional or fraudulent errors that are likely to have a significant impact on financial reporting.
- *Prioritisation of financial reporting risks*: KME has identified the key criteria to be used for the assessment of the previously identified risks inherent in financial reporting.

- *Identification of controls addressing risks identified*: this entails KME marshalling data on the system of internal controls over financial reporting as actually implemented and the key characteristics of the controls identified mitigating financial reporting risks.
- *Assessment of controls addressing the risks identified*: in this step, KME evaluates the key characteristics of its monitoring process or the manner in which controls over risks identified are periodically prioritised (both in terms of purpose as well as effectiveness).

In order to assure that the system of internal controls over financial reporting is highly reliable, the Company:

- implements and continually updates the combined administrative and accounting procedures (accounting policies, rules regarding the presentation of Consolidated Financial Statements and interim reports, etc.) by which the Parent ensures that information is efficiently exchanged with subsidiaries under its direct coordination. Subsidiaries, moreover, are given detailed operational instructions with respect to the Parent's guidelines;
- evaluates, monitors and continually revises the System of Internal Controls over financial reporting taking a top-down risk-based approach consistent with the COSO Framework that focuses attention on the main and/or key risks, or on risks of unintentional or fraudulent errors in the financial statements and notes thereto;
- classifies controls used in the Group into two principal categories in accordance with best international practice:
  - *entity level controls* at group or individual subsidiary level (assignment of responsibilities, inherent and delegated powers, separation of duties and assignment of privileges and rights of access to IT applications);
  - *process level controls* (authorisations, reconciliations, verifications of consistency, etc.) with respect to operational processes, closing the books and so-called "transversal" processes relating to the Group's IT services. The controls can be either preventive or detective in nature, depending on whether they are intended to prevent or detect unintentional or fraudulent irregularities in the financial statements; and either manual or automatic such as the validations run by software on the business systems;
- has the effectiveness of the design and implementation of controls verified by internal audit or dedicated units at subsidiary-level using random sampling techniques in accordance with best international practice;
- identifies any backup controls, remedial action or planned improvements in the monitoring of controls.

The findings are periodically examined by the Manager Responsible for Financial Reporting and notified to senior management and the Internal Control Committee, which in turn reports them to the Parent's Boards of Directors and Statutory Auditors.

#### a. Related roles and company units

KME clearly identifies roles and the units involved in the design, implementation, monitoring and revision of the System of Internal Controls particularly with respect to the staff (*Manager Responsible, Head of Internal Control, Process Owner, Control Owner, Testers*).

#### 4.5.8 Independent auditors

KPMG S.p.A. has been appointed to perform the audit, pursuant to arts. 155 and following of the TUF, of the separate and consolidated financial statements as well as the interim separate and consolidated financial statements of KME Group S.p.A.

KPMG S.p.A. is the "principal auditor". The current mandate was approved by Shareholders on 23 May 2007 on the recommendation of and for the reasons cited by the Board of Statutory Auditors and will terminate with the presentation of the financial statements as at and for the year ending 31 December 2015.

The person in charge of carrying out the audit on behalf of the independent auditors is Mr. Riccardo Cecchi, who has been in this role for 5 financial periods, starting with the certification issued on 25 October 2007 regarding the half-yearly report as at 30 June 2007. Article 17, paragraph IV of Legislative Decree no. 39 of 27 January 2010 (known as the “Consolidated Law on Auditing”) establishes the maximum term to hold this position as 6 financial periods.

Total remuneration paid by the Company amounts to Euro 86,000. The total remuneration paid at Group level amounts to Euro 1.54 million. Please refer to the explanatory notes to the financial statements for further information.

The independent auditors were not given any further duties during the year.

As part of its duties, the Board of Statutory Auditors is also responsible for monitoring the independence of Auditors.

#### *4.5.9 The Oversight Body and “Model 231”*

The Company has adopted the organisational and management model pursuant to Legislative Decree 231/01 which has been revised in accordance with the amendments to the Decree. An Oversight Body comprising multiple Company and Group units, in addition to assuring that the model is continually up to date, monitors its effectiveness through specific verifications of those corporate segments considered to be the most sensitive. The Chairman of the Board of Statutory Auditors participates in its meetings.

#### *4.6 Investor relations*

To underline the importance of Shareholders’ Meetings as the best method for the Board of Directors to provide information to Shareholders and share views on the Company’s performance and outlook, in order to facilitate better informed participation in Shareholders’ Meetings, besides the deposit of documents envisaged by the provisions in force, the Company sends Shareholders who have taken part in the last three Shareholders’ Meetings (or who have requested it) an “IT support” (previously it was a printed folder) containing the related documentation at least one week before the holding of the meeting. In addition, during all Shareholders’ Meetings, all those participating are given a folder with the related documentation which, for the Shareholders’ Meeting for the financial statements, is accompanied by a copy of the Articles of Association in force.

The quality and timeliness of public announcements, which are fundamental for the provision of information to Shareholders and the market, have been assured through the development and use of the website [www.kme.com](http://www.kme.com) which contains all information on operations and products of the industrial companies of the Group. There is unrestricted access to the site and all information can be easily found with the most recent being highlighted.

The site is updated as and when information is released through the electronic NIS (Network Information System) managed by Borsa Italiana S.p.A.. NIS was developed for the dissemination to the public of Companies’ press releases to media companies tied into the system, to Borsa Italiana S.p.A., which replicates them as stock market notifications, and to CONSOB.

The site not only contains archived documentation, accounting and financial documents (annual, half-year and quarterly financial statements, statements, share performance with graphs) and information on corporate actions (annual schedule, corporate governance reports, exercise of rights, callings of Shareholders’ Meetings and methods of participating, procedures for the appointment of the Board of Directors and the Board of Statutory Auditors), but also information and data on the range of products, their application and information of interest to suppliers and

customers as well as the price trend concerning metals used by the Group (copper, zinc and nickel). This is the most frequently visited section of the website.

An ample section of the site is dedicated to corporate governance (bodies, Company Articles of Association, Warrant Terms and Conditions, Procedures and Internal Codes, minutes), with special pages dedicated to any pending, non-routine matters. This Report is also available in the relevant section and the Remuneration Report shall also be available starting from this year.

The “annual information document”, provided by article 54 of the Issuers’ Rules is available for the years between 2005 and 2011, when it was no longer obligatory to provide this document.

A considerable amount of the information is now also available in English particularly press releases, financial statements and interim reports.

The website [www.kme.com](http://www.kme.com) had over a million and a half hits during 2011 by over 600,000 visitors with over 4.3 million pages viewed, which was down a bit from 2010.

Over 4,000 pdf files of the financial statements alone were downloaded and the presentation of the Group, which is updated whenever quarterly figures are published, was downloaded, over 2,300 times. Translation in English is also available.

There is also a continual dispatch service of announcements and documents issued by the Company to persons on a mailing list. Over 26,000 items were sent during the year (1,192 names on the mailing list compared to 1,184 in 2010).

Since 2008, a version of the annual financial statements has been prepared that can be both downloaded as a pdf file and searched and consulted on-line in both Italian and English.

It is of course possible to e-mail requests to the Company at [investor.relations@kme.com](mailto:investor.relations@kme.com).

The role of an investor relations manager is performed by the individual company units for their respective areas. This decision takes account of the actual internal resources and structures of the Company and ensures that information is provided as and when required.

For the Shareholders’ Meetings, the website has a specific section where it is possible to easily find all the documentation on the items on the Agenda as well as that relating to the means of participating in the Shareholders’ Meeting, as also indicated by art. 125 quater of the TUF.

The Board of Directors is satisfied that the website has improved and incremented the quality and quantity of information available on the Company, the Group, their industrial operations and that it is increasingly facilitating the timely dissemination of information to Shareholders and financial and other markets.

This extraordinary operation goes to confirm the validity of the choice made to give increasing focus to the organisation and update of the Company’s website, which is highly important in providing all parties, without any restrictions, with the broadest, most direct information on the Company’s activities.

## *4.7 Other Corporate Governance issues*

### *4.7.1 Internal Dealing Code*

As of 1 April 2006 following the entry into force of the requirements in connection with internal dealing introduced by Law 62 of 18 April 2005 and the consequent amendments to CONSOB's Issuers Regulation, the Board of Directors decided at its meetings of March and November 2006 and then of November 2007 to amend and subsequently keep up to date the procedure regarding internal dealing for the purposes of:

- assuring the dissemination to and facilitating the awareness of “relevant persons” with respect to the amended requirements;
- maintaining the procedure's efficiency and updating.

As an aside, the blackout periods with respect to trading in the Company's financial instruments by “relevant persons” has been maintained.

A description of the procedure is available in a separate section of [www.kme.com](http://www.kme.com) which also includes a list of transactions by name that are subject to reporting.

In accordance with the new provisions regarding remuneration, the equity investments held in the Company and its subsidiaries by the Directors and Statutory Auditors are reported in the Remuneration Report which should be consulted for reference.

### *4.7.2 Protection of personal data*

A Data Security Planning Document has been adopted for the protection of personal data in accordance with art. 26 of Annex B - Minimum Specifications for Data Security of Legislative Decree 196 of 30 June 2003 (the Personal Data Protection Code). The relevant unit is headed by Lorenzo Cantini.

## *4.8 Changes after the end of the reporting period*

After year end a complex extraordinary operation began which includes the merger of iNTEK S.p.A. in the Company; its multiple effects have not yet been completely implemented as at the date of this Report.

At the same time, work on checking the efficiency, and therefore the update, of the company provisions and procedures continued, due to the numerous updates introduced on company matters. This work will be developed further in accordance with the amendments proposed in the review of the Code of Conduct, the upcoming legislative changes expected to be introduced in 2012, and finally due to the effects of the extraordinary operation noted above. To that end, the necessary updates will be provided in the half-yearly Report on 30 June 2012, which is scheduled to be examined by the Board of Directors on 3 August 2012.

**TABLE 2 - STRUCTURE OF THE BOARD OF DIRECTORS AND ITS CONSTITUENT COMMITTEES**

Position	Member	BOARD OF DIRECTORS									INTERNAL CONTROL COMMITTEE		REMUNERATION COMMITTEE	
		Serving from	Serving until	List (M/m) <sup>*</sup>	Executive	Non executive	Ind. as per Civil Code	Ind. as per TUF	% <sup>**</sup>	Number of other positions <sup>***</sup>	****	**	****	**
Chairman	Salvatore Orlando	29.04.2009	31.12.2011	M		x			100	3				
Deputy Chairwoman	Vincenzo Manes	29.04.2009	31.12.2011	M	x				100	10				
Deputy Chairwoman	Diva Moriani	29.04.2009	31.12.2011	M	x				100	10				
Director Gen. Man.	Domenico Cova	29.04.2009	16.03.2011	M	x				100	1				
Director Gen. Man.	Riccardo Garrè	22.03.2011	31.12.2011	M	x				100	2				
Director Gen. Man.	Italo Romano	29.04.2009	31.12.2011	M	x				100	3				
Director	Vincenzo Cannatelli	29.04.2009	31.12.2011	M					100	3				
Director	Mario d'Urso	29.04.2009	31.12.2011	M		x	x	x	100	1	x	100	x	100
Director	Marcello Gallo	29.04.2009	31.12.2011	M		x			86	8				
Director	Giuseppe Lignana	29.04.2009	31.12.2011	M		x	x	x	86	= =	x	100	x	100
Director	Gian Carlo Losi	29.04.2009	31.12.2011	M		x			100	1				
Director	Alberto Pecci	29.04.2009	31.12.2011	M		x	x	x	71	2	x	0		
Director	Alberto Pirelli	29.04.2009	31.12.2011	M		x	x	x	86	10			x	100
<b>DIRECTORS WHOSE APPOINTMENT CEASED DURING THE YEAR</b>														
Director	Domenico Cova	20.04.2009	16.03.2011	X	= =	= =	= =	= =	100	= =	= =	= =	= =	= =

Indicate the quorum required for the presentation of lists for the most recent appointment: 2.5%

Number of meetings held during the year	Board Directors	Internal Control:	Remuneration:
	7	2	1

**Notes**

The table indicates attendance at minuted meetings, and it should be recalled that all the member of the Board and the participants at the meetings receive documentation promptly and information regarding items on the Agenda, and take part in their examination in preparation for the resolutions to be passed.

\* This column indicates M/m depending on whether the member has been elected from the majority-backed list (M) or from a minority list (m).

\*\* This column indicates the percentage of involvement of directors in the meetings respectively of the Board and the committees (no. of presences/no. of meetings held during the effective period of service of the person in question).

\*\*\* Number of positions as Director or Statutory Auditor held in other finance, banking, insurance or other companies of considerable size listed in regulated markets in Italy or abroad. In the Report is the list of these companies with a reference to each director, specifying whether the company in which the position is held is part or not of the Group which controls it or of which the Issuer is part.

\*\*\*\* "x" indicates membership of the Board Director of the Committee.

**TABLE 3 - STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

**BOARD OF STATUTORY AUDITORS**

<i>Position</i>	<i>Member</i>	<i>Serving from</i>	<i>Serving until</i>	<i>List (M/m) *</i>	<i>Independence as per Italian Civil Code</i>	<i>% **</i>	<i>Number of other positions ***</i>
Chairman	Marco Lombardi	29.04.2009	31.12.2011	M	X	100	8
Standing auditor	Pasquale Pace	29.04.2009	31.12.2011	M	X	71	4
Standing auditor	Vincenzo Pilla	29.04.2009	31.12.2011	M	X	100	9
Alternate auditor	Lorenzo Boni	29.04.2009	31.12.2011	M	X	==	1
Alternate auditor	Angelo Garcea	29.04.2009	31.12.2011	M	X	==	1

**STATUTORY AUDITORS WHOSE APPOINTMENT CEASED DURING THE YEAR**

==	==	==	==	==	==	==	==
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**Indicate the quorum required for the presentation of lists for the most recent appointment: 2.5%**

Number of meetings held during the year: 7

**Notes**

\* This column indicates M/m depending on whether the member has been elected from the majority-backed list (M) or from a minority list (m).

\*\* This column indicates the percentage of involvement of Statutory Auditors in the meetings of the Board of Statutory Auditors (no. of presences/no. of meetings held during the effective period of service of the person in question).

\*\*\* This column indicates the number of positions as director or statutory auditor held by the person concerned which are relevant pursuant to art. 148 **bis** TUF.

TABLE 4 - OTHER PROVISIONS OF THE CODE OF CONDUCT

	YES	NO	Reasons for any non-compliance with the Code's recommendations
<b>Powers and transactions with related parties</b>			
Has the Board of Directors delegated powers stipulating:			
a) limits?		x	
b) methods of exercise?		x	
c) frequency of reporting?		x	
Has the Board of Directors retained the power to examine and approve transactions of significant relevance for financial position and results of operations (including transactions with related parties)?		x	
Has the Board of Directors given guidelines and criteria for the identification of "significant" transactions?		x	
Have the above guidelines and criteria been described in the Report?		x	
Has the Board of Directors established specific procedures for the examination and approval of transactions with related parties?		x	
Have the procedures for the approval of transactions with related parties been described in the Report?		x	They are fully available on the internet
<b>Procedure of the most recent appointments as Directors and Statutory Auditors</b>			
Were nominations for the position of Director submitted at least fifteen days in advance?		x	
Were nominations for the position of director accompanied by exhaustive information?		x	
Were nominations for the position of Director accompanied by a statement of the eligibility of the nominee as an independent?		x	
Were nominations for the position of Statutory Auditor submitted at least fifteen days in advance?		x	
Were nominations for the position of Statutory Auditor accompanied by exhaustive information?		x	
<b>Shareholders' Meetings</b>			
Has the Company approved a set of Shareholder Meeting Rules and Regulations?		x	See Chapter III of the Company Articles of Association a full copy of which is available on the internet
Have the Rules and Regulations been annexed to the Report (or is there information as to where it is available or can be downloaded)?		x	See Chapter III of the Company Articles of Association a full copy of which is available on the internet
<b>Internal Control</b>			
Has the Company appointed internal control officers?		x	
Are the internal control officers organisationally independent of operational department heads?		x	
Organisational unit in charge of internal control (ex art, 9-3 of the Code)		x	Head of Internal Control
<b>Investor relations</b>			
Has the Company appointed a head of investor relations?		x	Day to day activities supported by the relevant corporate units
Organisational unit and contacts (address/telephone/fax/e-mail) for the head of investor relations		x	All contact details are in the Directors' Report and on the internet