



**CAIROCOMMUNICATION**

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Cairo Communication S.p.A.

**Report on corporate governance and ownership structure**

pursuant to article 123 - bis TUF  
(traditional Management and Control Model)

Financial year ended 31 December 2010

Approved on 10 March 2011

# **Report on corporate governance and ownership structure**

## **1. Issuer profile**

Cairo Communication has adopted a traditional system of administration and control.

The Shareholders' Meeting is the corporate body that expresses the will of the shareholders through its resolutions. It typically appoints the Chairman. Resolutions adopted pursuant to the law and the bylaws bind all the shareholders, including those absent or dissenting.

The Board of Directors has the most ample management powers to achieve corporate objects. Elected every three years by the Shareholders' Meeting, it appoints one or more Chief Executive Officers and determines their powers, and those of the Chairman.

The Compensation Committee and the Audit Committee are bodies set up within the Board of Directors, and comprise members of the Board of Directors and provide consultative and proposal functions to the Board of Directors. The Related Party Committee, provided for by the new procedures for related party transactions adopted during the year, currently coincides with the Audit Committee.

The Board of Auditors is the body with the functions of overseeing observance of the law and the company bylaws and management control.

The function of financial audit is entrusted to an Audit Firm registered in the relevant professional roll and is the Company's external control body. The Firm verifies, throughout the year, the regular operation of corporate accounting and the correct recording of management events and decisions in the accounting records. It is also its responsibility to ensure that the Parent Company and consolidated financial statements correspond to the accounting records and verifications performed, and that these accounting documents conform to the governing rules.

The duties and methods of operating of these corporate bodies are governed by the law, by the company bylaws and by the decisions adopted by relevant bodies, in conformity with the regulations set forth in the Corporate Governance Code drawn up by the Corporate Governance Committee of Borsa Italiana S.p.A.

The company bylaws are available at the registered office in the corporate governance section on the Company's website [www.cairocommunication.it](http://www.cairocommunication.it).

## **2. Information on ownership structure (pursuant to art. 123 bis of the Consolidated Finance Act – TUF) as at 10 March 2011**

Information prescribed by art. 123 bis of the TUF is as follows:

- a) Share capital structure (pursuant to art. 123 bis, paragraph 1, letter a), T.U.F.)

As at 10 March 2011, the share capital of Cairo Communication S.p.A. was Euro 4,073,856.80, fully paid and subscribed, and it comprised 78,343,400 shares (as at 31 December 2009 n. 78,343,400 shares).

	N° shares	% of share capital	Listing	Rights and obligations
Ordinary shares	78,343,400	100%	All Star segment of Borsa Italiana	According to the laws and company bylaws

No financial instruments have been issued attributing the right to subscribe to newly-issued shares.

No share incentive plans are foreseen involving share capital increases, even on a freely allocated basis.

b) Restrictions on transfer (pursuant to art. 123 bis, paragraph 1, letter b), T.U.F.)

According to the bylaws, shares are registered, indivisible and freely transferable. They are without requirements of representation, legitimization, circulation of the company investment required for securities traded on regulated markets.

c) Significant shareholdings (pursuant to art. 123 bis, paragraph 1, letter c), T.U.F.)

As at 10 March 2011, in accordance with the information received pursuant to art. 120 of the T.U.F. and the update of the shareholders' register, the principal shareholders in Cairo Communication S.p.A. were as follows:

Declarer	Direct shareholder	% of ordinary capital	% of voting capital
URBANO ROBERTO CAIRO	U.T. COMMUNICATIONS SpA	44.812%	44.812%
URBANO ROBERTO CAIRO	U.T. BELGIUM HOLDING S.A.	15.710%	15.710%
URBANO ROBERTO CAIRO	URBANO ROBERTO CAIRO	12.387%	12.387%
SCHRODER INVESTMENT MANAGEMENT LIMITED	SCHRODER INVESTMENT MANAGEMENT LIMITED	2.102%	2.102%

As at the same date, Cairo Communication S.p.A. held n. 771,326 treasury shares, or 0.985% of the share capital, subject to the provisions of art. 2357-ter of the Civil Code.

d) Securities carrying special rights (pursuant to art. 123 bis, paragraph 1, letter d), T.U.F.)

No securities conferring special controlling rights have been issued.

e) Employee shareholdings: voting right procedures (pursuant to art. 123 bis, paragraph 1, letter e), T.U.F.)

There are no employee shareholdings and/or voting rights procedures.

f) Restrictions on voting rights (pursuant to art. 123 bis, paragraph 1, letter f), T.U.F.)

There are no restrictions on voting rights other than those provided by law.

g) Shareholders' agreements (pursuant to art. 123 bis, paragraph 1, letter g), T.U.F.)

No shareholders' agreements are in place pursuant to art. 122 of the T.U.F.

h) Change of control clauses (pursuant to art. 123 bis, paragraph 1, letter h), T.U.F.)

The Company and/or its subsidiaries have signed no significant agreements that come into effect, are altered or terminate in the event of a change in the control of the contracting entity.

i) Delegations to increase share capital and authorization to acquire treasury shares (pursuant to art. 123 bis, paragraph 1, letter m), T.U.F.)

There are no delegations to increase the share capital pursuant to art. 2443 of the Civil Code or to issue equity financial instruments.

On 28 April 2010, after revoking a similar resolution adopted on 29 April 2009, the Shareholders' Meeting approved the proposal to acquire treasury shares in accordance with art. 2357 and subsequent articles of the Civil Code, for the purpose of stabilizing the Company share price and sustaining liquidity, and, if deemed necessary by the Board of Directors, of establishing a "shares stock" as provided in Consob regulation 16839/2009.

The Board was authorized to acquire treasury shares up to the maximum number permitted by law, for a period of 18 months from the date of authorization, by use of available reserves, including the share premium reserve, as resulting from the last approved annual financial statements. Specifically, the Board of Directors will be authorized to acquire treasury shares on one or more occasions, acquiring shares directly on the market and through authorized intermediary - according to the procedures provided by art. 144 (ii), paragraph 1, letter b of the Stock Exchange Regulations and relevant Instructions - and, in case such operations are carried out, according to accepted market practices, pursuant to the regulations introduced by Consob Resolution No. 16839/2009.

Minimum price and maximum acquisition price per share are set at an amount equal to the average official purchase price of the share on Borsa Italiana S.p.A. for the 15 working days preceding the purchase respectively reduced or increased by 20%, in any event within a maximum limit of Euro 6.5 per share. In case such operations are carried out according to accepted market practices, the purchase of treasury shares is subject to further limits, including price limits, provided for thereto.

The proposal of the Board also allows for the authorization to sell, on one or more occasions, any acquired treasury shares, setting the minimum sale price per share no lower than the minimum price calculated following the criteria adopted for their purchase. Should the treasury shares be sold according to accepted market practices pursuant to Consob Resolution 16839/2009, the sale of treasury shares shall be subject to further limits, including price limits, provided for thereto.

In 2010, as part of the buyback plans, no treasury shares were acquired or sold.

As at December 2010, Cairo Communication held a total of n. 771,326 treasury shares, or 0.985% of the share capital.

l) Management and coordination activities

Cairo Communication currently carries out management and coordination activities in relation to the following companies:

- Cairo Pubblicità S.p.A.
- Cairo Editore S.p.A.
- Cairo Publishing S.r.l.
- Cairo Due S.r.l.
- Il Trovatore S.r.l.
- Edizioni Anabasi S.r.l.
- Diellesei S.p.A. in liquidation

Cairo Communication, though subject to rightful control by UT Communication S.p.A. – which is directly controlled by dott. Urbano R. Cairo – is neither subject to the direction and coordination of such company, nor of any other entity. The Board of Directors of Cairo Communication has come to such conclusion taking account of the absence of further elements (with respect to mere control) that may lean towards the existence of a unitary direction and the circumstance that UT Communication S.p.A. is, *de facto*, a holding company and has never actually exercised any policy-making functions and/or interference in the management of the Issuer, restricting its activities to the management of its own controlling investment.

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Information prescribed by art. 123-bis, paragraph 1, letter (i) (“*agreements between the Company and the directors, members of the management board or supervisory board providing for compensation in the event of resignation or unjust dismissal ....*” and letter l) (“*provisions applicable to the appointment and replacement of directors and to changes to the bylaws, if diverging from the legislative and regulatory provisions that might also apply*”) are illustrated in the section of the Report on the Board of Directors (Sect. 4.1).

**3. Compliance (pursuant to art. 123 bis, paragraph 2, letter a), T.U.F.)**

The Cairo Communication Group has adopted a Corporate Governance Code for listed companies approved in March 2006 by the Corporate Governance Committee and promoted by Borsa Italiana, and also available on the Company’s website [www.cairocommunication.it](http://www.cairocommunication.it) and on [www.borsaitaliana.it](http://www.borsaitaliana.it).

No Group company is subject to non-Italian law that would influence the structure of Corporate Governance.

**4. Board of Directors**

4.1 Appointment and replacement of directors and changes to the bylaws (pursuant to art. 123 bis, paragraph 1, letter h), T.U.F.)

The Board of Directors is appointed by the Shareholders' Meeting on the basis of lists presented by shareholders pursuant to articles 14 and 15 of the bylaws.

Specifically:

- lists must be filed with the registered office within the 25<sup>th</sup> day prior to the date on which the Shareholders' Meeting is called to decide on the appointment of the members of the Board of Directors, and made available to the public at the registered office, on the Company website and according to the procedures and law and regulations, at least 21 days before the date of the Meeting;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake required for submission of the lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company. the relevant prescribed certification may also be submitted subsequent to the filing, provided submission is made within the time limit prescribed for publication of the lists.
- for the purposes of the appointment of the directors, account is taken exclusively of lists that have received at least half the votes established by the bylaws for the submission of lists;
- candidates shall appear in the lists in progressive order and equivalent to the number of directors to appoint. Should more than one list receive at least half the votes as required by the bylaws for submission of the lists, candidates appointed to the position of director shall be those appearing in the list that has received the highest number of votes, except for the last candidate appearing in the list and the candidate appearing on top of the list that has received the second-highest number of votes that is in no way, even indirectly, connected with the shareholders that have submitted or voted the list that has received the highest number of votes, subject to the possession of the requirements of independence set forth in art. 148, paragraphs 3 and 4 of the TUF and of further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., failing which the appointed candidate, in his/her place, shall be the first candidate appearing in progressive order on the list possessing the foregoing requirements of independence. Should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders;
- each list must contain candidates possessing the requirements of independence referred to in art. 147-ter, paragraph 4, of the TUF, and further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., in the minimum amount established by the provisions of law and regulations, taking also into account the share listing segment;
- in order to be admitted to the voting, each list must be accompanied by detailed information on the professional and personal qualifications of the candidates, by the statement on possession of the requirements of independence prescribed by law and by further requirements set forth in the Corporate Governance Code of Borsa Italiana S.p.A., and by indication of the identity of the shareholders who have submitted the lists and total percentage of shares held.

Mention must be made, for the purposes set forth in art. 123 *bis*, paragraph 1, letter (l) of the T.U.F. that, pursuant to art. 21, paragraph 2 of the bylaws, without prejudice to the competence of the Extraordinary Shareholders' Meeting, which has the authority to decide on the matter, pursuant to art. 2365 of the Civil Code, the Board of Directors is authorized, inter alia to adopt resolutions concerning merger, in the cases set forth in articles 2505 and 2505 of the Civil Code, capital reduction in the event of shareholder withdrawal, harmonization of the bylaws to mandatory provisions of law, relocation of the registered office to other premises in Italy.

#### 4.2 Composition (pursuant to art. 123 bis, paragraph 2, letter d), T.U.F.)

The Shareholders' Meeting on 28 April 2008 appointed the Board of Directors of the Company for a three-year period, until approval of the financial statements as at 31 December 2010, on the basis of the single list presented by the majority shareholder, UT Communications S.p.A., and is composed of:

- three Executive Directors: the Chairman Urbano Cairo, Uberto Fornara and Marco Pompignoli,
- two Non-Executive Directors: Antonio Magnocavallo and Roberto Cairo and
- two Independent Directors, also possessing further requirements pursuant to the Corporate Governance Code issued by Borsa Italiana S.p.A. and required by the company bylaws: Marco Janni and Roberto Rezzonico.

With the Shareholders' Meeting called to approve the financial statements as at 31 December 2010, the Board of Directors concludes its mandate. The Meeting must, therefore, appoint the new Board, prior to the decision on the number of directors and their term, and the Chairman of the Board.

To date, the Board has no general criteria in place regarding maximum number of positions held by a director and control in other companies that may be considered compatible with the effective performance of a director's functions for the Issuer.

The directors of Cairo Communication hold no other position in companies listed on regulated markets, financial companies, banks, insurance companies or major companies, except for Avv. Marco Janni, who is chairman of CO.MO.I. SIM S.p.A. and of Intesa Lease SEC S.r.l. and board member of Intesa SEC 3 S.r.l., and for avv. Antonio Magnocavallo, until April 2010, board member and member of the executive committee of Credito Artigiano S.p.A.

Number of meetings carried out during the year		1. BoD: 6		Audit Committee : 6			Compensation Committee: 2			
BOARD OF DIRECTORS							Audit Committee		Compensation Committee	
ROLE	Members	Executive	Non-executive	Independent	****	Number of other positions held **	***	****	***	****
<b>Chairman</b>	Dr. Urbano Cairo	X			100%	-				
<b>Managing Director</b>	Dr. Uberto Fornara	X			100%	-				
<b>Director</b>	Dr. Marco Pompignoli	X			100%	-				
<b>Director</b>	Dr. Roberto Cairo		X		100%	-				
<b>Director</b>	Avv. Antonio Magnocavallo		X		100%	1	X	83%	X	100%
<b>Director</b>	Avv. Marco Janni			X	100%	-	X	100%	X	100%
<b>Director</b>	Dr. Roberto Rezzonico			X	100%	-	X	100%	X	100%

\*\*\*\* Percentage of meetings attended by Directors

\*\*\* An X in this column indicates if the Director is also on the Committee

\*\* Number of directorships or auditor positions held in other companies quoted on the stock exchange, including finance companies, banks and insurance companies, or of relevant size.

Urbano Cairo is the founder of the Group and has led its growth and development. A graduate in business corporate administration from the Bocconi University, he has significant experience in the publishing and advertising segments. He started working with Fininvest in 1982 as assistant to Silvio Berlusconi. He went to work for Publitalia '80 in 1985, where he was appointed Vice-General Manager in 1990. In 1991 he was appointed as managing director of Mondadori Pubblicità. In December 1995 he founded Cairo Pubblicità, which initiated its distributorship activity for a number of RCS Group magazines. He has therefore been the main leader behind Cairo Communication Group's growth, whose main phases are associated with the 1998 acquisition of the company Telepiù Pubblicità, followed by Cairo TV, dedicated PAY TV distributor, the February 1999 acquisition of Editoriale Giorgio Mondadori, Cairo Communication's listing in 2000, the contract for the exclusive rights for the sale of advertising space on La7 at the end of 2002, the birth of Cairo Editore in 2003 and his subsequent activity in developing successful new publishing initiatives (the launch of "For Men Magazine" and "Natural Style" in 2003, "Settimanale Dipiù" in 2004, "Dipiù TV", "Diva e Donna" in 2005 and "TV Mia" in 2008).

Uberto Fornara is a graduate in business administration from the Bocconi University, and has worked within the Group since its inception, having previously gained significant experience in the publishing segment with Publitalia '80 from 1998 and then in Mondadori Pubblicità, of which he was appointed Director of Customer Service in 1994. He is also CEO of Cairo Pubblicità S.p.A.

Marco Pompignoli was appointed as Chief Financial Officer in June 2000 and is Financial Reporting Manager of Cairo Communication S.p.A. He is a graduate in business administration and has previously worked in leading audit firms, having gained experience in Italy and abroad.

Roberto Cairo, Urbano Cairo's brother, is an entrepreneur in real-estate brokerage with the company Il Metro Immobiliare, with offices in Milan and in Liguria.



Antonio Magnocavallo has been a professional civil and corporate lawyer in Milan since 1961 and is currently in partnership (Magnocavallo e Associati). He is currently board member of Fondazione Gruppo Credito Valtellinese (until April 2010 he was board member and member of the executive committee of Credito Artigiano S.p.A.) and chairman of a number of large foundations and associations. Mr. Magnocavallo has provided legal assistance and consultancy to the Cairo Communication Group since 1998.

Marco Janni graduated in civil procedural law in 1960 and was assistant to the chair of civil procedural law at the University of Milan. He is *of counsel* at the NCTM law firm, which deals with civil, commercial and corporate law. He was director in large banking groups.

Roberto Rezzonico, chartered accountant, is currently Chairman of the Board of Auditors or principal auditor in a number of important industrial groups (Nestlè Italiana S.p.A., Nespresso Italia S.p.A., Siemens Holding S.p.A., Osram S.p.A., Pirelli Labs S.p.A.).

#### 4.3 Role of the Board of Directors

The Board of Directors met 6 times during the year. The Board meetings lasted an average of 2 hours. Six meetings are planned for the current year, one has already taken place.

The Board of Directors holds the power to purchase, sell or alter companies or company branches, and the power to grant guarantees or finance. These powers, or the following powers, cannot be delegated to individual directors:

- a) examination and approval of company strategic, industrial or financial plans or those relating to the Cairo Communication Group;
- b) Group's system of corporate governance or structure;
- c) attribution or revocation of powers to Directors;
- d) examination and approval of (i) extraordinary transactions, and (ii) transactions involving a potential conflict of interest.

The Board of Directors has also identified the transactions of financial and economic relevance that may only be approved by the Board.

Such transactions have been identified and defined, starting with the term "transaction" which has been taken to mean:

- i) disposals of assets, tangible or intangible, even those with no related cost or payment;
- ii) granting of either temporary or permanent rights relating to intangible assets (trademarks, brands, copyrights, databases, etc.)
- iii) providing work or services;
- iv) granting or obtaining finance and guarantees (including letters of patronage);

- v) any other action pertaining to property rights.

Transactions of financial and economic relevance are those that must be disclosed to the market in accordance with art. 114 of the Consolidated Finance Act, by their nature, procedure or the nature of the counterparty, or those with a value of over Euro 5 million. The signing of advertising sales contracts, the Company's typical activity, is not deemed a significant operation if it does not involve cost commitments or other financial commitments beyond the granting of a percentage of the revenue generated by the contract to the media owner.

With regard to self-regulation, these transactions are the responsibility of the Directors and as such are subject to prior approval by the Board of Directors. If it is not possible for the Board of Directors to meet, for reasons of time pressure or other particular circumstances, the Chairman of the Board of Directors of the Company can carry out the transaction pending the approval of the Board of Directors which would then meet at the earliest possible opportunity.

Even significant related party transactions - as described below in paragraph 12 "*related party transactions*" - are reserved to the exclusive competence of the Board of Directors of the Company and cannot be delegated.

During the year, the Board:

- evaluated the appropriateness of the organizational, administrative and general accounting structure of the company and of its strategically important subsidiaries (based on their contribution of Group profits and revenues, Cairo Editore S.p.A., Cairo Pubblicità S.p.A. and Cairo Publishing S.r.l.), with particular reference to the internal audit system and the management of conflicts of interest; such valuation was undertaken on the basis of information and evidence gathered through investigation performed by the Audit Committee and through contribution by Company Management and the internal audit manager,
- after examining the proposals of the relevant committee and having taken council of the Board of Auditors, and prior to the non-binding opinion of the Related Party Committee, the Board of Directors determined compensation of the managing directors and of the directors with specific responsibilities, and in addition, wherever not provided for by the Shareholders' Meeting, the division of total compensation due to the members of the Board of Directors,
- evaluated the general management trend, taking particular account of information received from Management responsible, in addition to comparing results achieved with forecasts.

The Board of Directors carried out an evaluation on the size, composition and role of the Board of Directors itself and of its committees, noting that:

- the size of the Board of Directors (seven members in terms of the bylaws requirement of between five and eleven members) appears reasonable, taking into consideration the size and nature of corporate activities;

- the composition of the Board of Directors, considering that the three executive directors, with specific experience in company management, one of whom in finance, are supported by four non-executive directors, of whom two are independent, two are lawyers and one is a chartered accountant, is appropriate;
- the role of the Board of Directors and its Committees, as shown in the above table, appears consistent with the size and nature of corporate activities with sufficient delegation of powers granted to the Chairman and to one other executive director.

The Meeting did not authorize, generally or preventively, derogations to the non-competition clause provided for by art. 2390 of the Civil Code.

#### 4.4 Management

Given the size of the Group and Parent Company, the main executive and managerial powers, except those to purchase or dispose of company branches or companies and to furnish guarantees of every kind to third parties and, without prejudice, in any case, to the competences of the Board regarding significant operations as identified by the Board and mentioned above, are entrusted to the Chairman dott. Urbano Cairo, who is the main person in charge of defining corporate strategies and management. Director dott. Uberto Fornara is entrusted with the research and development of activities regarding the sale of advertising space and/or advertising brokerage (except for initiatives requesting commitments and obligations by the Issuer), management of the development of advertising sales, in accordance with the guidelines approved by the Board or by the Chairman, and management of staff and the sales network involved in advertising sales.

Director dott. Marco Pompignoli is responsible for overseeing and supervising the Group's administration, finance and management control functions, which include the power to manage and coordinate the activities of staff working in these areas and to coordinate the activities of the Issuer's legal and tax consultants, in any case, in accordance with the instructions given by the Chairman and promptly informing the Board.

The Chairman is also the controlling shareholder of Cairo Communication.

The delegated bodies provide appropriate and regular information every three months to the Board and to the Auditors. There is no executive committee.

#### 4.5 Agreements between Company and directors (pursuant to art. 123 bis, paragraph 1, letter i), T.U.F.)

Mention must be made, also under Consob Communication n. DEM/11012984 of 24 February 2011, point 2.3, letters (a) and (f) that:

- there are no agreements in place between the Company and the directors for any compensation in the event of resignation or unjust dismissal, or in the event their employment relationship ceases following a takeover bid;
- there are agreements in place between the Company and dott. Uberto Fornara for payment of an annual compensation equal to 150% solely of his gross salary in his capacity as executive, which will become

effective upon termination of his relationship prior to noncompetition commitments in the year following termination of his employment with the Company.

#### 4.6 Recommendations on succession planning (Consob Communication n. DEM/11012984 of 24 February 2011)

Mention must be made that there are no succession plans regarding executive directors.

#### 4.7 Other executive directors

There are no other executive directors.

#### 4.8 Independent Directors

Marco Janni and Roberto Rezzonico are independent directors.

In 2010 (meeting of the Board of Directors of 24 March 2010) the Board of Directors and Board of Auditors verified that both Marco Janni and Roberto Rezzonico met the requirements to be deemed independent directors, in accordance with art. 3 of the Corporate Governance Code, pursuant to art. 148, paragraph 3, Legislative Decree n. 58 of 24 February 1998, and to subsequent requirements of the Corporate Governance Code issued by Borsa Italiana S.p.A. The Board of Auditors, as part of its prescribed duties, verified the criteria and procedures used by the Board of Directors for the evaluation of the independence of its members.

Regarding Avv. Marco Janni and Dott. Roberto Rezzonico's position in particular, the Board, in order to assess their independence, disregarded, for 2010, application criterion 3.C.1, letter (e), of the Code, which considers no longer independent a director of the Issuer that has been in office for more than 9 of the last 12 years.

The Board, given the non-binding nature of the application criteria of the Code for the purposes of attributing the requirements of independence, in consideration of:

- (i) the absence of relations (financial or other) between avv. Janni and dott Rezzonico, on the one side, and the Issuer, and companies belonging to the same group and the controlling partner, on the other, and
- (ii) the acknowledged professional qualities of the directors in question, both renowned professionals with a solid background, such as to rule out that their independence has been undermined by the recurrence of compensation received as directors

confirmed the persistence of the requirement of independence of both directors, opting for non-application of the application criterion 3.C.1, letter (e) of the Corporate Governance Code. The Board, on the other hand, deems that such conclusion also protects the interests of the Issuer to still avail itself of the directors' professional qualities, specific experience and deep knowledge of the Company's inner workings gained during their tenure in the Board of Directors.

The Board of Auditors formally acknowledged the decision and verified the proper application of the criteria adopted by the Board of Directors to assess the independence of its members.

The number of independent directors, and their function, are deemed appropriate in relation to the size of the Board of Directors and the Company's activities, and to facilitate the establishment of Compensation and Audit Committees (for further information, see sections 8 and 10 below).

During the year, the independent directors held informal discussions on various occasions without reporting any situation requiring clarification or further discussion.

#### 4.9 Lead Independent Director

Considering that the Chairman of the Board of Directors is substantially the main person responsible for the management of the company (chief executive officer) and in addition is the controlling shareholder of the company, the Board of Directors elected an independent director, Marco Janni, as Lead Independent Director, to whom non-executive directors report, for an increased contribution to the activities and role of the Board. The Lead Independent Director cooperates with the Chairman to guarantee that the directors receive a complete and timely flow of information. In addition, he has the power to call, whether autonomously or on the request of other directors, appropriate meetings of independent directors for the discussion of issues deemed of being in the interest of the role of the Board of Directors or of the management of the company.

During the year, there was no need to arrange specific meetings solely with independent directors.

### **5. Treatment of privileged information**

Under the provisions regarding treatment of privileged information, the Company established a register of persons (physical persons, legal entities or associations) who, through their work or professional dealings or the function they carry out on behalf of the Issuer, have regular or occasional access to privileged information (art. 152-bis), which is constantly updated (art. 152-ter). All relevant persons have been fully informed about the establishment of this register.

The Company also enacted the regulations which, in replacement of the self-regulation included in the Code of Practice on Insider Dealing, places strict disclosure obligations on "relevant persons" of listed companies in relation to share trading carried out by them or persons closely linked to them.

In addition, the Company banned "relevant persons", with binding effect, from trading in Company shares or related financial instruments, being purchase, sale, subscription or exchange, either directly or through a third party, during the 15 days ahead of any meeting called to approve the financial statements for that period. The exercise of stock options or option rights relating to financial instruments (in any case, currently not in progress) is not included in the ban. The sale of shares derived from stock option plans, including sales carried out as part of the exercise of options, is also exempt. The restrictions, however, do not apply to

exceptional situations which are subjectively necessary and appropriately motivated in the interest of the Company.

The Company also has a procedure in place for internal management and the publication of documents and confidential information, particularly price sensitive information governed by the following directives:

- a) Confidential information (Information) is taken to mean every piece of information and news which relates to Cairo Communication S.p.A. (the Company) and its subsidiaries, both direct and indirect (the Cairo Group) which is not in the public domain or is by its nature confidential or of exclusive pertinence to the Cairo Group. Even if expressed as a personal opinion, a piece of information which could affect the price of Group company financial instruments if made public (i.e. price sensitive) is deemed Information.
- b) The management of Information is the sole responsibility of the Company Chairman. In particular, the communication of Information to Consob, the Communications Regulatory Authority (Agcom), Borsa Italiana S.p.A., the media, press agencies, public relations consultants, financial analysts, journalists and any other administrative or regulatory authorities overseeing the activities of the Cairo Group must be carried out exclusively by the Company Chairman directly or occasionally through representatives chosen by him. All Directors and members of the Board of Auditors must show the utmost discretion in relation to Information acquired while carrying out their duties and must respect Company procedures relating to the publication of Information.
- c) Directors are responsible for the secrecy of documentation given to them in advance of meetings of the Company Board of Directors. In any case, Directors must exercise discretion in relation to Information acquired while performing their duties.
- d) The Chairman takes all measures necessary to ensure that Management and other Cairo Group employees do not transmit Information to third parties if not by law or regulation, and in respect of best practice in the market, in order to ensure that discretion is exercised in relation to Information acquired while performing their duties.
- e) Should a Director be bound to disclose a piece of Information by the civil or legal authorities, he must communicate this to the Chairman immediately unless otherwise bound by law or the relevant authority.
- f) Further to the provisions relating to the publication of Information, in order to transmit any other information to third parties, or to publish an interview to the media that relates partially or completely to the Cairo Group, Company Directors and Auditors must obtain specific prior approval of the Chairman.

## **6. Board of Directors' Committees**

The Board of Directors has set up three committees within the Board itself – the Compensation Committee, the Audit Committee and the Related Party Committee (refer below to section 12).

## **7. The Nomination Committee**

The Board of Directors has decided not to proceed with the formation of a Nomination Committee, optional under the Corporate Governance Code, as it was confirmed that the restricted composition of the Board of Directors is in a position to carry out the functions of the Nomination Committee

## **8. Compensation Committee**

The members of the Compensation Committee were appointed by the Board of Directors on 14 May 2008, confirming the members already appointed for the previous three-year period.

The Compensation Committee (until approval of the financial statements as at 31 December 2010), in compliance with the recommendations of the Corporate Governance Code, currently comprises non-executive Directors Roberto Rezzonico (independent), Marco Janni, (independent) and Antonio Magnocavallo. Its functions include:

- the formulation of proposals to the Board of Directors regarding compensation of Managing Directors or those with particular responsibilities, monitoring the application of decisions adopted by the Board itself;
- to periodically evaluate the criteria adopted for the compensation of managers with strategic responsibilities, in addition to oversight of the application of potential stock option plans on the basis of information provided by Managing Directors, and to provide the Board of Directors with relevant general recommendations.

The function of the Compensation Committee is governed by a policy approved by the Board of Directors. The Board of Directors has made financial resources available to the Compensation Committee for the execution of its functions.

In 2010, the Compensation Committee met twice, for about 1 hour and with all members present. At least two meetings are scheduled this year. Minutes are kept of every meeting.

The Board of Directors' meeting on 14 May 2008 allocated Euro 15 thousand as annual compensation due to the Compensation Committee.

## **9. Compensation of Directors**

Incentivizing compensation criteria for executive directors and senior managers with strategic responsibilities, with the exception of the Chairman and CEO, have been introduced over time. The Board of Directors, having heard the views of the Compensation Committee, and since the Chairman and CEO, Mr. Urbano Cairo, is the controlling shareholder of the company, decided that incentivized compensation criteria would be unnecessary.

The variable component of compensation due to managing director dott. Uberto Fornara in 2010, equivalent to Euro 395 thousand (approximately 50% of his total compensation), is linked to the achievement of targets regarding increase in advertising profitability and revenues.

Mr. Marco Pompignoli, Chief Financial Officer, received supplementary compensation in 2010 of Euro 180 thousand for his work, following a decision made by the Board based on a proposal by the Compensation Committee on the basis of thorough qualitative evaluations.

Senior managers with strategic responsibilities for Cairo Communication S.p.A. fulfill the role of Directors.

There are no share-based incentive plans in place in favour of executive directors and/or senior managers with strategic responsibilities.

The compensation of non-executive directors is not based on company performance. They do not receive any share-based incentive plans.

Directors' compensation for 2010 may be analyzed as follows:

Name and surname	Position	Fee	Benefits in kind	Bonuses and other incentives	Other compensation *	Total
Dr. Urbano R. Cairo	Chairman of the Board	150	7	-	855	1,012
Dr. Uberto Fornara	CEO	474	4	-	330	808
Dr. Roberto Cairo	Director	20	-	-	-	20
Avv. Marco Janni	Director	40	-	-	-	40
Avv. Antonio Magnocavallo	Director	40	-	-	-	40
Dr. Marco Pompignoli	Director	290	3	-	335	628
Dr. Roberto Rezzonico	Director	40	-	-	-	40

\* Other compensation, in addition to compensation for the role of director (Euro 20 thousand), refers to:

- Dr. Urbano Cairo: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 130 thousand).
- Dr. Uberto Fornara: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 454 thousand).
- Avv. Marco Janni: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);
- Avv. Antonio Magnocavallo: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand);
- Dr. Marco Pompignoli: compensation pursuant to art. 2389, paragraph 3, Civil Code (Euro 270 thousand);
- Dr. Roberto Rezzonico: compensation for attendance in meetings of the Compensation Committee, Audit Committee and Related Party Committee (Euro 20 thousand).

\*\* Other compensation refers to:

- Dr. Urbano Cairo: compensation for his duties performed for Cairo Editore (Euro 850 thousand) and other companies of the Group (Euro 5 thousand).
- Dr. Uberto Fornara: gross compensation as senior manager payable by Cairo Communication (Euro 224 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 100 thousand) and other companies of the Group (Euro 6 thousand).
- Dr. Marco Pompignoli: gross compensation as senior manager payable by Cairo Communication (Euro 140 thousand) and compensation for his duties performed for Cairo Pubblicità (Euro 190 thousand) and other companies in the Group (Euro 5 thousand).

No agreements have been entered into between the Issuer and the directors providing for compensation payments in case of resignation or unjust dismissal/removal or should the employment relationship come to an end due to a takeover bid.



## **10. The Audit Committee**

The Board of Directors' meeting of 14 May 2008 appointed the members of the Audit Committee, confirming the same members of the past three-year period.

The Audit Committee (until approval of the financial statements as at 31 December 2010) currently comprises, in accordance with the Corporate Governance Code, non-executive directors Roberto Rezzonico (independent), Marco Janni, (independent) and Antonio Magnocavallo.

Roberto Rezzonico has appropriate experience in accounting and financial issues.

The role of this Committee is to assist the Board of Directors in the following matters:

- i) define the guidelines of the internal audit system, so that the main risks affecting the Company and its subsidiaries are correctly identified and appropriately measured, managed and monitored, identifying the extent to which these risks can be tolerated to assure sound and accurate management of the company;
- ii) appoint an executive director to supervise the operation of the internal audit system;

the Committee also

- iii) evaluates, together with the Financial Reporting Manager and with the auditors, the proper application of accounting principles, and in the case of groups, overall consistency of the consolidated financial statements;
- iv) upon request from the executive director in charge, to express an opinion on specific aspects relating to the identification of the main corporate risks and the planning, implementation and management of the internal audit system;
- v) examines the action plan and reviews periodic reports prepared by the internal audit manager;
- vi) evaluates the proposals that need to be implemented as presented by the Statutory Auditors, in addition to their action plan for the audit, the results presented in their audit report and, if applicable, the management letter;
- vii) monitors the effectiveness of the audit process;
- viii) reports to the Board of Directors, at least every six months, on the date of the approval of the financial statements and half-year reports, on their activities carried out and on the appropriateness of the internal audit system.

To ensure the correct performance of their duties, the Committee has the power to access all necessary corporate information and to interview all necessary corporate personnel, in addition to make reference to external consultants, in accordance with the terms established by the Board of Directors.

In 2010, the Audit Committee met 6 times. Minutes of the meetings, lasting for about 3 hours, were recorded. Six meetings are scheduled this year.

The meetings were usually attended, upon invitation, by the Chairman of the Board of Auditors, or another of its members, by representatives from the audit firm Deloitte and Touche, by the Executive Director in charge of the internal audit system and by the internal audit manager.

The operation of the Audit Committee is governed by an appropriate regulation approved by the Board of Directors. The Board of Directors provides the Committee with sufficient resources to fulfill its duties.

During the above activities, and based on the reports received from the internal audit manager, no facts of particular relevance emerged that needed to be reported and the Committee deemed the internal audit system as being appropriate.

Given the current composition of the Board, the Audit Committee presently coincides with the Related Party Committee, provided for by the procedures for related party transactions adopted in 2010 as mentioned below.

The meeting of the Board of Directors of 14 May 2008 had allocated Euro 45 thousand as annual fees due to the Audit Committee.

## **11. Internal audit system**

### ***Purposes and objectives***

The internal audit system of the Cairo Communication Group consists of a set of rules, procedures and organizational structures, which, through an appropriate process of identification, measurement, management and monitoring of major risks, ensures that financial information is fair, accurate, reliable and timely.

The reference model adopted by the Group for the implementation of its internal audit system complies with domestic and international best practices and with the indications set by the laws and regulations Cairo Communication is required to comply with as a company listed on a regulated market, such as in particular law 262/2005 and consequent articles 154-bis and 123-bis of the Consolidated Finance Act and Legislative Decree 195/07 (“Transparency Decree”) as well as the Corporate Governance Code of Borsa Italiana, to which Cairo conforms.

The system has been designed and implemented following the guidelines issued by a number of sector bodies regarding the activities performed by the Financial Reporting Manager, specifically:

- Position Paper Andaf “Financial Reporting Manager”;
- Position Paper AIIA “Law n.262 on the Protection of Public Savings”;
- Confindustria guidelines “Guidelines for the functions performed by the Financial Reporting Manager pursuant to art. 154-bis TUF”.

The Board of Directors, assisted by the Audit Committee, defines the policies of the internal audit system, so that the primary risks to which the Company and its subsidiaries are exposed are identified, evaluated, managed and monitored correctly, identifying the extent to which these risks can be tolerated to assure sound and accurate management of the company.

Over the past financial years, the Group has set the policy lines of the internal audit system in order to rationalize the overall system by mapping and classifying subjects involved, organize the main reports flows within the Group and explicate the responsibilities and areas of activities taking place.

The evaluation of the internal audit system is regularly conducted to verify the appropriateness of the following:

- react timely to significant situations of risk, ensuring appropriate control mechanisms;
- in terms of corporate processes, to guarantee an appropriate degree of segregation of duties between operating functions and control functions to avoid conflicts of interest in the responsibilities assigned;
- in terms of the operating activities and accounting and administrative activities, to guarantee systems and procedures that assure the accurate recording of company and management events, in addition to the provision of reliable and timely information, both internal and external to the Group;
- to provide for methods to ensure the timely communication of any significant emerging risks and anomalies in control to the appropriate Group Management, and to enable the identification and timely execution of remedies.

***Main characteristics of existing risk management and internal audit systems in relation to the financial reporting process (pursuant to art. 123 bis, paragraph 2, letter b), T.U.F.)***

***Stages of the system of existing risk management and internal audit systems in relation to the financial reporting process***

The system of risk management and internal audit in relation to the Group's financial information rests basically on the application and monitoring of relevant corporate procedures for the purposes of the preparation and disclosure of financial information.

Specifically, the internal audit system is split up into the following stages:

- a) Identification and evaluation of risks related to financial information;
- b) Identification of controls upon identification of risks;
- c) Evaluation of controls upon identification of risks.

The evaluation procedures and instruments used by the Group are periodically subject to review processes aimed at the verification of their suitability and function as compared to the corporate reality, which is by its very nature mutable. Therefore, where possible, an information flow has been put in place in order to maintain, update and improve system quality.

- a) **Risk identification and evaluation for financial reporting:** the identification of both the scope of the entries and their “significant” processes in terms of potential impact on financial reporting, and of the

risks consequent to any missed control objectives, comes about by way of a quantitative analysis of the financial statement items and a qualitative evaluation of the processes.

The quantitative analysis, aimed at the identification of the relevant entries, is performed through the application of the concept of “tangibility” to the aggregate items in the trial balance of the Cairo Communication Group. The tangibility threshold was determined as a fixed percentage in compliance with the indications in Section 2621 of the Civil Code (substituted by Law December 28, 2005 No. 262).

Once the significant accounts have been identified through the account-processes combination, the significant processes are then distinguished.

The qualitative analysis, through the evaluation of the significance of the business processes and of their level of complexity, integrates the quantitative analysis, determining the inclusion or the exclusion of the processes in regard to the scope of reference.

For each process identified as significant, there are then also identified specific process risks, which in the event of their occurrence, would compromise the achievement of the objectives connected to the system: that is to say, those of accuracy, reliability, credibility and timeliness of financial reporting.

The manager in charge reviews the definition of the scope of reference at least annually and also, each and every time that elements, which might change the analysis performed in a significant manner, are manifested.

- b) Identification of the controls corresponding to the identified risks: the identification of the controls necessary for the mitigation of the ascertained risks is performed associating the risks identified to the relative control objectives, meaning the group of objectives that the financial reporting control system intends on achieving in order to ensure a true and correct representation.

The controls established have been formalized inside of a specific matrix (“Matrix of risks and controls”).

- c) Evaluation of the controls corresponding to the identified risks: The work of administrative and accounting control system evaluation is to be performed at least annually.

The valuation of the suitability of the actual application of the controls is performed through specific verification activities, aimed at guaranteeing the programming and implementation of the identified controls, upon indication and coordination on the part of the manager in charge.

Each test, with its respective outcome, is documented by way of the formalization of a schedule and filing of the figures.

Based on the results of the verification work, the manager in charge, with the aid of the support staff, defines a remedy plan so as to correct any deficiencies that may impact negatively on the effectiveness of the risk management and internal audit system in relation to financial reporting.

With at least annual frequency, the manager in charge confers with the internal audit committee and the board of auditors and communicates with the company supervisory boards, regarding the methods with which the suitability evaluation and the application of the controls and administrative - accounting procedures have been conducted, then expressing his own evaluation on the suitability of the administrative - accounting control system.

### *Roles and functions*

Art. 154-bis of the Consolidated Finance Act provides for the presence, in the corporate organization of listed companies, of the “Financial Reporting Manager”, appointed by the Board of Directors in concert with the Managing Director. The Manager is responsible for planning, implementing and approving the accounting and administrative control model, and for assessing its application, issuing a certificate on half-year, annual and consolidated financial statements.

The Manager is also responsible for preparing adequate administrative and accounting procedures for the formation of the parent company and consolidated financial statements, and for providing subsidiaries, considered as significant entities for the preparation of the Group’s consolidated financial reporting, with instructions on how to perform an appropriate evaluation of their accounting control system.

The internal risk and control management system related to financial reporting also involves other subjects typical of the Company’s Corporate Governance structure, such as the Board of Directors, the Audit Committee, the internal audit manager and the Board of Auditors.

### ***Overall evaluation of the appropriateness of the internal audit system***

Based on the information and evidence gathered following an enquiry conducted by the Audit Committee, supported by Management and by the internal audit manager, the Board of Directors deems the internal audit system to be, as a whole, appropriate for allowing, with reasonable assurance, achievement of the Company's objectives.

The evaluation, as it refers to the overall internal audit system, is by nature limited. Although well-structured and in operation, the internal audit system is designed only to guarantee accomplishment of corporate objectives with “reasonable assurance”.

#### 11.1 Executive director responsible for the internal audit system

Marco Pompignoli, executive director, is responsible for overseeing the operation of the internal audit system. In 2010, he was responsible for:

- identifying main corporate risks (strategic, operational, financial and compliance), taking account of the nature of the operations carried out by the company and its subsidiaries, to submit them for the review of the Board of Directors,

- executing the policies as identified by the Board of Directors, including their planning, realization and their management by the internal audit system, constantly monitoring their overall appropriateness, effectiveness and efficiency,
- adapting the system to the dynamics of the operating conditions and to the legal and regulatory framework.

### 11.2 Internal audit manager

The role of internal audit manager is carried out by an external professional, Rag. Ezio Micheli, appointed at end 2007 on the proposal made by the executive director responsible for the internal audit system and taking account of the opinion of the Audit Committee, who reports to the Audit Committee and to the Board of Auditors.

The Board of Directors has assigned the internal audit manager the responsibilities foreseen by the Corporate Governance Code and has defined his compensation, in line with corporate policy, providing him with the appropriate means to fulfill his duties.

The Board of Directors has verified that this person possesses the necessary professional and independence requirements to perform such function. In particular, he is not in charge of any operating area and is not subordinate to any person in charge of operating areas, including administration and finance.

The internal audit manager has been allowed direct access to all useful information for the performance of his duties and has reported on his activities to the Audit Committee and to the Board of Auditors and to the executive director responsible for overseeing the operation of the internal audit system.

In 2010, the activities of the internal audit manager mainly focused on verifying the updating and implementation process of corporate procedures. He also performed internal audit functions and is member of the Supervisory Board pursuant to Legislative Decree 231/2001, as stated in section 11.3 below.

### 11.3 Organization Model pursuant to Legislative Decree 231/2001

On 31 March 2008, the Board of Directors adopted a Model for organization, management and control pursuant to Legislative Decree 231/2001 (Organization Model), thereby providing itself with a set of principles of conduct and procedures to comply with the requirements of Legislative Decree 231/2001, both in terms of the prevention of crime and illicit acts, and in terms of control measures to ensure implementation of the Model itself. A similar model was also adopted on 13 November 2008 by the subsidiaries Cairo Pubblicità S.p.A. and Cairo Editore S.p.A.

As part of the activities for verifying the application and updating of its Organization Model, in 2009 the Supervisory Board deemed it appropriate to propose the updating of the Model to add, in the general and special sections, a specific part involving crimes regarding handling of stolen goods and money laundering, and one involving computer crimes, which had been left out in the original version.

On 30 July 2009, the Board of Directors approved the new model, which acknowledges such adjustments. A similar new organization model was adopted on 13 November 2009 by the subsidiaries Cairo Pubblicità S.p.A. and Cairo Editore S.p.A.

The Organization Model adopted is made up of a set of principles, rules and organizational hierarchies relating to the management and control of corporate activities and is presented in an explanatory document which:

- identifies the activities in which crimes could be committed;
- provides for specific rules directed at planning the formation and performance of corporate decisions relating to crimes to be prevented;
- identifies methods for the management of financial resources directed at crime prevention;
- provides for the provision of information to the body deputized with oversight of the operation and observation of the models (Oversight Body);
- introduces a disciplinary system directed at punishing failure to respect measures identified by the Organization Model.

The Organization Model adopted provides for the presence of a corporate body responsible for assuming the functions of a control body (Supervisory Board) with autonomous responsibilities for the supervision, control and initiative related to the Model, composed of three members who must be selected from persons having proven abilities in inspection, management, administration and legal matters, and who must also possess minimum requirements of professionalism and integrity.

Specifically, the Supervisory Board verifies that the company has an appropriate Organization Model in place and ensures it is effectively carried out, certifying its own effectiveness whilst carrying out its functions, ensuring the progressive update, thus guaranteeing constant process of adjustment to the above-mentioned operating and/or organizational principles.

In 2010, the members of the Supervisory Board of Cairo Communication S.p.A. were Ezio Micheli, internal audit manager, Iolanda Campolo and Marco Bisceglia. On February 11, 2011, the Board of Directors appointed Giacomo Leone as member of the Supervisory Board, replacing outgoing Chairman Iolanda Campolo, and appointed Marco Bisceglia as Chairman.

#### 11.4 Audit Firm

The Shareholders' Meeting on 30 January 2006 approved extension for the responsibility of the audit of the financial statements and the consolidated financial statements and the limited review of the half-year report to the audit firm Deloitte & Touche S.p.A., for a further six year period, or until the end of the 2010/2011 financial year.

Following the decision to change Cairo Communication S.p.A.'s financial year-end date from 30 September to December 31 of each year approved by the Shareholders' Meeting on 21 December 2007, the period of

validity of the audit responsibility was modified to the financial statements for the year ending 31 December 2010.

The Shareholders' Meeting called to approve the financial statements as at 31 December 2010 must also confer the audit assignment for the 2011-2019 nine-year period to a new audit firm, based upon a motivated proposal by the Board of Auditors.

#### 11.5 Financial Reporting Manager

The Board of Directors appointed Marco Pompignoli, Chief Financial Officer of the Cairo Communication Group, as the Financial Reporting Manager. He has the appropriate professional requirements (graduate in business administration, previously working for a major audit firm, and gaining significant experience in Italy and abroad, and is a certified accountant registered in Forlì).

Dott. Marco Pompignoli, as board member of the company, is provided with executive and management delegations to oversee the administration, finance and management control functions of the Group the Issuer is part of.

### **12. Related party transactions**

Consob, through Resolution n. 17221 of 12 March 2010, amended through subsequent Resolution n. 17389 of 23 June 2010, adopted, pursuant to art. 2391-*bis* of the Civil Code, and to articles 113-*ter*, 114, 115 and 154-*ter* of the TUF, the regulations regarding provisions pertaining to related party transactions, to which management bodies of issuers of widely distributed securities must comply (the “**Regulations**”).

In its meeting of 11 November 2010, the Board of Directors of Cairo Communication S.p.A., upon favourable opinion of the Independent Directors, adopted the procedures for related party transactions (the “*Procedures*”), for the purpose of guaranteeing “*substantial and procedural transparency and fairness of related party transactions*” carried out by the Company directly or through its subsidiaries, establishing a Related Party Committee.

Pursuant to the Regulations, Cairo Communication is considered a “smaller company”, since its balance sheet assets and its revenues as of the consolidated financial statements as at 31 December 2009 are lower than Euro 500 million, amounting respectively to approximately Euro 177 million and to Euro 228 million. For such companies, the Regulations provides for the possibility to “apply to transactions of greater importance, departing from art. 8, a procedure identified for the purpose of art. 7 of the Regulations” (operations of lesser importance).

The procedures adopted by the Company, available on [www.cairocommunication.it](http://www.cairocommunication.it) in the *Corporate Governance* section, to which reference is made for more details, have also identified:

- a) the definition of related parties and transactions;
- b) roles and responsibilities;



- c) operations of greater importance, being those in which at least one of the ratios of significance (*equivalent value relevance ratio, assets and liabilities relevance ratio*) set out in the Regulations is higher than the threshold of 5%, or of 2.5% for transactions whose purpose is the disposal of intangible assets of strategic importance;
- d) the exemptions envisaged in the Regulations and opted by the Company, mainly transactions of smaller amounts (Euro 150,000), compensation plans pursuant to art. 114-bis of the TUF (which comply with the obligations regarding transparency and substantial and procedural correctness provided by the temporary provisions in force), regular transactions concluded under market-equivalent or standard conditions and the transactions with and between subsidiaries and/or affiliates;
- e) the procedures regarding the preliminary proceedings and approval of related party transactions and the regulations in cases where the company examines or approves transactions with subsidiaries;
- f) the procedures and timing adopted to provide information on the transactions, and the relating documentation, to the directors or independent directors who express opinions on related party transactions, as well as to the management and audit bodies, before their approval, during and after their execution.

Related party transactions of greater importance are reserved to the exclusive competence of the Board of Directors and may not be delegated. The execution of such operations, as well as those of smaller importance, is subject to a non-binding opinion of the Related Party Committee, or of other bodies indicated in the procedures.

In the event one or more transactions are approved, notwithstanding a negative opinion expressed by the Committee and/or other bodies, the Company draws up and makes available to the public at its main office within 15 days from the close of each quarter of the financial year, a document containing indication of the counterparty, of the object and counter value of such transactions approved in the quarter period of reference, as well as the reasons why that opinion has not been shared. Within the same time, this opinion is made available to the public in attachment to the above document or on its website [www.cairocommunication.it](http://www.cairocommunication.it).

Regarding transactions of greater importance falling under the competence of the Shareholders' Meeting, in the event the resolution proposal is approved, notwithstanding contrary advice by the Related Party Committee (or by other bodies), the transaction is not carried out if the majority of unrelated shareholders votes against the transaction, provided the unrelated shareholders attending the Meeting represent at least 10% of the share capital with voting right (whitewash mechanism). For such purpose, in the resolution proposal, the Board adds a provision that specifies that the effectiveness of the transaction is subject to the foregoing majority.

Related party transactions must comply with transparency and substantial and procedural correctness criteria and are executed in the exclusive interest of the Company:

- substantial correctness means correctness of the transaction from an economic point of view when, for instance, the transfer price of a good is in line with market prices and, more in general, when the

transaction has not been influenced by the related party relationship, or at least said relationship has not determined the acceptance of conditions that are unjustifiably penalizing for the Company;

- procedural correctness means compliance with procedures aimed at ensuring the substantial correctness of the transaction and, therefore, observance of the rules through which it is at least potentially ensured that related party transactions do not determine any unjustified prejudice to the reasons of the Company and its investors.

In the Board of Directors' meeting called to resolve on such related party transactions, directors who have even a potential or indirect interest in the transaction must provide prompt and exhaustive information in person to the Board on the existence of such interest and on the circumstances thereof, abandoning the meeting at the moment of the resolution. Should the directors' presence be needed to maintain the necessary quorum, the Board may decide, upon the unanimous decision of the attendants, for the directors not to abandon the meeting.

The Regulation also provides for a series of obligations to inform the public on transactions of greater importance, as well as for those of smaller importance, at least every quarter in the latter case.

The Committee for the approval of related party transactions (hereinafter, the “**Related Party Committee**”), regardless of the importance, is appointed by the Board of Directors and is composed of three members:

- (i) otherwise than under the case indicated in the following point (ii), its members are non-executive directors, the majority of whom are independent. In such case, the Committee may coincide, as it does today, with the Audit Committee;
- (ii) in the event at least three independent directors have been elected to the Board of Directors, the members of the Committee are all independent directors.

The Committee is required to perform all the tasks indicated in the Regulations and in the procedures. Specifically, its task is to release a motivated opinion on the interest of the Company (or, if the case, of its subsidiaries) on the execution of related party transactions and on the convenience and substantial correctness of conditions thereto. If required by the nature, extent and characteristics of the transaction, the Related Party Committee may also be assisted by one or more independent experts of its choice, whose fees are paid by the Company, through the acquisition of specific reports and/or fairness and/or legal opinions.

The Board of Directors may decide on compensation for special responsibilities pursuant to art. 2389, paragraph 3, of the Civil Code, to the Committee members for each transaction it is required to express an opinion on.

### **13. Appointment of the Board of Auditors**

Under art. 26 of the company bylaws, the Board of Auditors is appointed on the basis of lists submitted by the shareholders containing a maximum of five candidates.

Specifically:

- members of the Board of Auditors are appointed on the basis of lists that must be submitted at the registered office of the Company within 25 days prior to the Shareholders' Meeting called to decide on the appointment of the members of the Board of Auditors, made available to the public at the registered office, on [www.cairocommunication.it](http://www.cairocommunication.it) and in accordance with the other procedures provided by law and the regulations, at least 21 days before the date of the Meeting. Upon expiry of the time limit of 25 days prior to the Meeting, in the event only one list has been submitted, or lists submitted by shareholders who are connected, pursuant to applicable provisions, lists may be submitted until the fourth day (as set forth in the bylaws) subsequent to such date. In this event, the foregoing 2.5% threshold (or other minimum amount set by prevailing laws) is reduced by half;
- lists admitted to the voting are those submitted by shareholders who, either individually or jointly with other shareholders, represent at least 2.5% of the shares entitled to vote in the ordinary meeting, or other minimum amount set by Consob. Ownership of the minimum stake required for the submission of lists is determined on the basis of the shares recorded in the name of the shareholder on the date the lists are filed with the Company; candidates holding the position of auditor in 5 (five) other listed companies (excluding their subsidiaries, although listed) or holding a number of positions exceeding the cumulative limit prescribed by law and by Consob, or failing to possess the requirements of integrity and professionalism established by prevailing laws, shall not appear in the lists. Each list shall be accompanied a) by information regarding the identity of the shareholders who have submitted the list, indicating total percentage of shares held, and by prescribed certification on ownership of the stake, which may be submitted also subsequent to filing, provided within the time limit set for publication of the lists; b) by a statement of the shareholders other than those who hold, also jointly, a controlling or relative majority interest, declaring they have no relationship of connection, pursuant to applicable provisions; c) by detailed information regarding the personal and professional qualifications of the candidates, and a statement with which each candidate accepts nomination and attests, under own responsibility, that there are no reasons for ineligibility or incompatibility with the position, and confirms possession of the requirements prescribed by law and the bylaws for the respective positions.
- the chairman of the board of auditors shall be the candidate indicated on top of the list that has received the second-highest number of votes. The bylaws do not provide for the appointment of more than one minority auditor, nor do they provide for the possibility of drawing a number of alternate auditors from the minority list to replace the minority member greater than the minimum required by Consob.
- should two or more lists reach a tie, the prevailing list shall be the list possessing the largest shareholding or, in the event of a tie, the highest number of shareholders.

**14. The Board of Auditors (pursuant to art. 123 bis, paragraph 2, letter d), T.U.F.)**

The Shareholders' Meeting on 28 April 2008 appointed the Board of Auditors for a three-year period, until the approval of the financial statements as at 31 December 2010, on the basis of a list presented by the major

shareholder, UT Communication S.p.A. The Board of Auditors comprises three statutory auditors, Mauro Sala (Chairman), Maria Pia Maspes and Marco Moroni, and two alternate auditors, Mario Danti and Ferdinando Ramponi, who have certified that they know of no relative cause of ineligibility or incompatibility, and that they meet the requirements for the position under current legislation.

<b>Post</b>	<b>Members</b>	<b>Percentage of Board meetings attended</b>	<b>Number of other positions held*</b>
<b>Chairman</b>	Mauro Sala	100%	-
<b>Statutory auditor</b>	Marco Moroni	100%	-
<b>Statutory auditor</b>	Maria Pia Maspes	100%	-
<b>Alternate auditor</b>	Ferdinando Ramponi	N/A	-
<b>Alternate auditor</b>	Mario Danti	N/A	-
<b>Meetings held during the year: 5</b>			
<b>Quorum required for the submission of lists by minority shareholders for the election of one or more statutory members (pursuant to art. 148 TUF): 2.5%</b>			

\* Number of directorships or auditor positions held in other companies listed on Italian regulated markets.

With the Shareholders' Meeting called to approve the financial statements as at 31 December 2010, the Board of Auditors concludes its mandate. The Meeting must, therefore, appoint the new Board.

In 2010, five meetings were held each lasting approximately 2 hours. Five meetings are scheduled for the current year, one already held.

The Board of Auditors assessed the independence of its members following their appointment and on an annual basis, adopting the criteria provided by the Corporate Governance Code with reference to the independence of directors. Regarding specifically the position of dott. Mauro Sala, the Board of Auditors - applying in its evaluation the criteria prescribed by the Corporate Governance Code referring to the independence of directors - disregarded application criterion 3.C.1, letter (e), of the Code (non-independence for a director of the Issuer who has held the post for more than 9 years in the last 12 years).

The Board of Auditors, given the non-binding nature of the application criteria of the Code for the purposes of attributing the requirements of independence, in consideration of:

- (i) the absence of relations (financial or other) - differing from the position also held in the board of auditors of several subsidiaries and of the controlling company UT Communications S.p.A. - between dott. Mauro Sala, on the one side, and the Issuer, as well as the companies belonging to the same group and the controlling partner, on the other, and
- (ii) the acknowledged professional qualities of the auditor in question, a renowned professional with a solid background, such as to rule out that his independence has been undermined by the recurrence of compensation received as auditor

confirmed the persistence of the requirement of independence of the foregoing auditor in 2010, opting for non-application of the application criterion 3.C.1, letter (e) of the Corporate Governance Code. The Board deems that such conclusion also protects the interests of the Issuer to still avail itself of the auditor's

professional qualities, specific experience and deep knowledge of the Company's inner workings, gained during his tenure in the Board of Auditors.

The Board of Auditors also oversaw the independence of the Audit Firm, verifying the respect of relevant regulatory requirements in terms of the nature and overall service provided other than the audit services provided to the Company and its subsidiaries by the same Audit Firm and the organizations forming part of its network.

In the performance of its duties, the Board of Auditors coordinated its activities with the internal audit manager and with the Audit Committee.

## **15. Investor Relations**

Cairo Communication has set up an appropriate section in its website, which is easy to find and easily accessible, in which all important company information of interest to shareholders is made available.

To put a communication flow in place with the general body of shareholders, also taking account of the size of the Group, an appropriate "investor relations" function has been set up, managed by Mario Cargnelutti, who is supported by top management, particularly in relation to dealings with institutional investors.

## **16. Shareholders' Meetings**

The functioning of the Shareholders' Meeting, its main powers, shareholders' rights and terms of their exercise are those prescribed by the provisions of law and regulations applicable, as recently amended by Legislative Decree 27/2010 regarding shareholders' rights.

Shareholders' attendance of meetings and their representation is governed by the provisions of law and the regulations. Art 12 of the bylaws states as follows: *"Shareholders' attendance of meetings and their representation is governed by the provisions of law and the regulations. In particular, shareholders authorized to cast a vote may send notice by electronic means of the proxies issued pursuant to the prevailing laws, by accessing a specific section on the Company's website according to the procedures to be indicated in the notice of call of shareholders' meetings"*.

Considering the current number of participants at Cairo Communication S.p.A. ordinary and extraordinary meetings, which has never posed any risk to the rights of expression of any member in relation to matters discussed, no regulations relating to the orderly and functional operation of the Meetings have been proposed for the approval of the Shareholders' Meeting.

Shareholders' Meetings are an opportunity for information regarding the Issuer to be communicated to shareholders, as part of the code of practice relating to privileged information. In particular, at Shareholders' Meetings, the Board of Directors reports on activities completed and planned, and ensures that shareholders have appropriate information on all topics required in order to make decisions at the meeting with full knowledge of the facts.

In order to meet this objective, the Board of Directors makes available to shareholders all company information they deem relevant, in a timely manner, in accordance with the code of practice relating to privileged information. For such purpose, a dedicated section of the Company website has been set up where this type of information is displayed, with particular detail on attendance at Shareholders' Meetings, the exercise of voting rights and documentation relating to items on the agenda.

#### **17. Further corporate governance practices**

There are no corporate governance practices further to the ones mentioned above applied by the Company, aside of the legal or regulatory requirements.

#### **18. Changes after year end**

There have been no changes in the Corporate Governance structure after year end.