

Corporate governance and adoption of the self-discipline code

On 26 March 2001, the Board of Directors of the company approved the adoption of the self-discipline code which is part of the regulatory framework established by Borsa Italiana S.p.A. for publicly-traded companies.

Board of Directors

- Role of the Board of Directors and delegation of authority

As provided by the articles of association, the Board of Directors meets at least four times a year in order to review the trend of operations, the quarterly, six-monthly and annual results, and significant transactions.

The Board of Directors held 4 meetings during 2005.

The Board of Directors, which was appointed by the shareholders' resolution passed on 4th May 2001, and then on 28th April 2004, proceeded to appoint two Vice Chairmen and one Vice Chairman and Managing Director.

The Chairman and Vice Chairmen are vested with power to act as the Company's legal representatives with respect to third parties and in court.

The Vice Chairman and Managing Director, Paolo Panerai, and the Vice Chairman, Vittorio Terrenghi, are jointly and severally vested with authority for ordinary and extraordinary administration, and the representation of the Company in the execution of the acts included in the delegation of authority; there are no matters for which the Board of Directors has exclusive responsibility, except those provided by law.

- Composition of the Board of Directors

The Board of Directors, as appointed by the shareholders' resolution passed on 28th April 2004 for a term of three years, consists of twelve members including ten non-executive directors. Seven of the ten non-executive directors are independent. The non-executive directors provide specific consultative input at the meetings of the Board of Directors, thereby contributing to the decisions taken in the Company's interest.

Executive directors are:

Paolo Panerai
Vittorio Terrenghi

Non-executive directors are:

Victor Uckmar
Pierluigi Magnaschi
Paolo del Bue
Angelo Riccardi
Luca Panerai
Gabriele Capolino
Maria Martellini
Samanta Libro
William L. Bolster
Maurizio Carfagna

Non-executive, independent directors are:

Victor Uckmar
Paolo Del Bue
Angelo Riccardi
Maria Martellini
Samanta Libro
William L. Bolster
Maurizio Carfagna

- Independent Directors

The Board of Directors has a sufficient number of independent directors, namely, directors who do not have any economic relationships with the Company, significant enough to condition the autonomy of directors' judgment with the respect to the Company, its subsidiaries, the executive directors, the shareholders or group of shareholders who control the Company. The independent directors also do not directly or indirectly control a quantity of shares in the Company that would allow for exercising control over the Company, nor are they parties to shareholders' agreements which have been executed for the purpose of controlling the Company.

- Reporting to the Board of Directors.

As part of their responsibility, Vice Chairman Vittorio Terrenghi and Vice Chairman and Managing Director Paolo Panerai periodically report to the Board of Directors on the activities carried out during the year under their authority. They provide the Board of Directors and the Board of Statutory Auditors with quarterly reports on the activity of the Company and on any transactions effected by the Company or by its subsidiaries which could have a material impact on the Company's financial position, capital and earnings.

- Appointment of Directors

To date, no special committee to appoint directors has been established, nor is such a committee envisaged in the Company's articles of association. Directors are appointed by voting lists pursuant to Article 16 of the Company's articles of association. At the moment a new director is appointed, his/her curriculum vitae filed at the Company's registered office.

- Directors' compensation

The directors receive compensation as indicated in the schedule attached to the financial statements. On 12th September 2001, the Board of Directors established a compensation committee to formulate compensation proposals for executive directors. The committee consists of the following three directors, two of whom are non-executive, Vittorio Terrenghi, chairman, Angelo Riccardi and Paolo Del Bue.

Since the committee was established, there has been no need to make a proposal for specific compensation, and thus the committee has not yet passed any resolutions.

Directors who have full-time employment with the Company participate in a stock option plan approved by the Board of Directors on 12th December 2000.

The list below indicates the directors who hold positions as corporate officers of other publicly traded companies (i.e.: financial companies, banks, insurance companies and companies of a significant size):

| | |
|--------------------|---|
| Victor Uckmar | 2 |
| Paolo Panerai | 1 |
| Luca Panerai | 1 |
| Vittorio Terrenghi | 6 |
| Maurizio Carfagna | 2 |
| Maria Martellini | 7 |
| Angelo Riccardi | 1 |

Handling of confidential information

Confidential information, and particularly information which could influence the price of the Company's shares, is directly handled by the Managing Director. Class Editor has established directives on the handling of information which could influence the share price. In particular, the subsidiaries inform the parent company about any transactions which might affect the share price, and all press releases are published subject to the approval of the Managing Director.

A Register of persons enjoying access to privileged information was established in April 2006, thus implementing the so-called *Market Abuse* directive.

Internal controls

The Company has a Manual of procedures for managing the individual operating cycles. The managers of individual areas report to the Managing Director and the Internal Control Committee comprising non-executive directors Angelo Riccardi, Samanta Libro, Gabriele Capolino and Paolo Del Bue.

The Board also approved the "Management and control organisation model" pursuant to Law Decree 231/2001, and appointed a Director of Management Control.

Within the terms established in Legislative Decree 196/03, the parent company issued the Personal Data Security Policy Document for 2006, approved by the Internal Control Committee.

Relationships with institutional investors and other shareholders

In complying with the procedures regarding disclosure of documents and information about the Company, the Chairman and the Vice Chairman and Managing Director actively work towards developing communications with shareholders and institutional investors, based on mutual understanding of their respective roles. Meetings with the financial community in Italy and abroad are organised on a periodic basis.

Shareholders' meetings

Although no specific rules have been adopted for shareholders' meetings, the company encourages and facilitates the broadest participation possible of shareholders at shareholders' meetings.

Statutory Auditors

Article 28 of the articles of association provides for the election of the Statutory Auditors through list voting. Shareholders' proposals for the appointment of the statutory auditors are deposited at the company's registered office at least five days prior to the date of the shareholders' meeting. Pursuant to the articles of association, the selection of candidates must take into account the rules concerning the professional and ethical requisites of the Statutory Auditors of publicly-traded companies, as approved by Ministry of Justice Decree No. 162 of 30th March 2000.

Code of Ethics for Dealing in Financial Instruments (*Internal Dealings*).

On 14th November 2002, the Board of Directors approved the Code of Ethics for Dealing in Financial Instruments (Internal Dealing) which was implemented on 1st January 2003. According to this code and Italian stock exchange regulations, the company's directors and officers are required to inform the Company, which in turn informs the market authorities, of any transactions with a value of 50,000 euros or more within the fifth market day following the end of each calendar quarter. In the event of transactions with a value of 250,000 euros or more, such disclosure is made within the second market day following the date of each transaction.

The Board is currently modifying the code of ethics for compliance with the Consob *market abuse* directive as per the resolution passed on 29th November 2005.