

CIR S.p.A. - Compagnie Industriali Riunite

EXTRAORDINARY SHAREHOLDERS' MEETING

12 September 2022 - Single Convocation

EXPLANATORY REPORT OF THE BOARD OF DIRECTORS

AGENDA ITEM 2

REDUCTION OF THE SHARE CAPITAL PURSUANT TO ART. 2445 OF THE CIVIL CODE BY POSTING TO RESERVES AN AMOUNT OF EURO 218,603,657 AND THUS FROM THE CURRENT EURO 638,603,657 TO 420,000,000, WITHOUT THE CANCELLATION OF SHARES, WITH THE AIM OF MAKING THE CAPITAL STRUCTURE OF THE COMPANY MORE FLEXIBLE. AMENDMENT OF ART. 4.1 OF THE COMPANY BYLAWS. RESOLUTIONS PERTAINING TO AND RESULTING FROM THE SAME

(drafted pursuant to Article 125-ter of Legislative Decree No. 58 of 24 February 1998, as amended and supplemented, and Article 72, paragraph 1-bis, of Consob Regulation No. 11971 of 14 May 1999, as amended)

Dear Shareholders,

The Board of Directors of CIR S.p.A. - Compagnie Industriali Riunite (hereinafter referred to as "**CIR**", the "**Company**"), by means of this report (the "**Report**") prepared in accordance with Article 73 of the Regulations adopted by Consob Resolution 11971/1999 (the "**Rules for Issuers**") and Annex 3A, Schedule 4, to the aforesaid Rules for Issuers, hereby submits for your approval **(i)** the voluntary reduction of the share capital of CIR from Euro 638.603,657 to Euro 420,000,000 and therefore for a total amount of Euro 218,603,657, to be allocated entirely to the available equity reserve, without making any repayment of capital to the Shareholders (the "**Operation**") and **(ii)** the consequent amendment of Art. 4.1 of the Company's Bylaws with the granting of a specific power of attorney for the execution of both these decisions.

The Report illustrates the Operation and the reasons behind its proposal and is structured as follows: **1)** Structure of the CIR group and the equity structure of CIR itself; **2)** the Operation and the rationale behind it; **3)** considerations on the technical sustainability of the Operation; **4)** conclusions; **5)** information on the occurrence of the right of withdrawal.

It should be noted that the Company's Board of Directors, in order to receive assistance in its evaluations, decided to ask a professional of primary *standing*, Prof. Pietro Mazzola, partner of Wepartner, for an opinion on the technical sustainability of the Operation.

1. The Structure of the CIR Group

CIR is an investment holding company, which currently holds the following assets:

- > controlling interests in two sub holdings of operating groups; these are KOS S.p.A. and Sogefi S.p.A. which operate in the *healthcare* and *automotive sectors* respectively. Their capital structure appears to be sufficiently stable, even though the two operating *sub-holdings* are positioned at different stages of their life cycle, and notwithstanding the existence of current economic dynamics realised during the Covid-19 pandemic;
- > 100% shareholdings in two financial sub holdings; these are CIR Investimenti and CIR International, wholly owned subsidiaries of the parent company, whose main activity consists in investing the group's financial resources; they have invested their assets in a range of more or less liquid financial assets;
- > other minor assets and other minor and non-strategic participations, certain fixed assets and working capital.

CIR's income consists of dividends, where distributed, from the two operating group sub-holdings and the two financial sub-holdings, as well as income from the sale and purchase of minority and non-strategic shareholdings; this income contributes to covering CIR's costs and forming its result.

In terms of the balance sheet structure, financial resources totalled € 700.4 million as at 30 June 2022, of which 43.7% consisted of liquid financial resources (directly or through participations in financial holding companies), and were fully covered by equity, amounting to € 700.3 million, being the financial payables as at 30 June 2022 amounting to € 0.1 million.

Net assets consist mainly of share capital and only a very small part of reserves.

2. The description of the Operation and its rationale

As at 30 June 2022, net assets amounted to EUR 700,282,362, share capital to EUR 638,603,657 and distributable reserves to EUR 16,472,719 (including the Stock Grant reserve).

The current composition of net assets and in particular the reduced available reserves, which have now reached a non-significant level compared to the size of the share capital, were affected by extraordinary transactions that took place during the last few years, mainly: **(i)** transactions on treasury shares (*buy-back*), **(ii)** the effects of the CIR-COFIDE merger, and **(iii)** to a lesser extent, dividends.

The proposed Operation consists of:

- > the reduction of the share capital by EUR 218,603,657, from EUR 638,603,657 to EUR 420,000,000;
- > in the simultaneous increase by the same amount, Euro 218,603,657, of the available reserves, which, considering their value as at 30 June 2022, would increase from Euro 16,472,719 to Euro 235,076,376 .

Therefore, upon completion of the Operation, the amount of net asset would not change, only its qualitative composition would change.

Moreover, as the Company's shares have no par value, the proposed capital reduction does not entail the cancellation of shares, nor any change in their intrinsic asset value.

With regard to the rationale, the Operation is proposed because the current situation makes it impossible to continue the policy of distribution, via dividends and/or *buy backs* of treasury shares, that the Company has adopted in the past, except within the limits of the Company's profits for the year and therefore of the distributable reserves that may be generated in the future.

The purpose of the Operation is to replenish a certain amount of the Company's available reserves, so as to allow for greater flexibility in the future in the use of the financial resources available in the group and not used in operations and/or to service operating investments. In particular, as a result of the Operation, these resources may also be used to approve any dividend distributions or *buy-back* transactions.

In the absence of the Operation, on the contrary, such choices might not be easily pursued precisely because of the aforementioned current composition of net assets, in which distributable reserves have reached an extremely small size.

The Operation does not result in an immediate outflow of resources from the Company's assets.

Rather, the resolution lays the foundations to be able to do so in time in light of the sustainability analyses that will be conducted from time to time by the CIR Board of Directors in office *pro tempore* on the basis of the updated information available, and after weighing a series of elements - such as, for example, the situation of the group and the companies that comprise it, their business plan, the strategic options available - as a whole that are useful to allow any further resolution to be consciously consistent with the strategic and financial framework of the company and the markets.

The decision to reduce share capital in favour of an increase in available reserves is consistent with other operations carried out in our country by various companies in recent years, with motivations and rationales similar to those underlying the Operation

at hand.

3. Technical sustainability of the Operation

Since the Operation, as anticipated, consists of the reduction of the share capital without reimbursement to shareholders and the simultaneous increase of the same amount in the available reserves, it does not involve any change in the amount of the net asset, changing only its qualitative composition; therefore, it has no impact on the CIR group's economic and financial position.

In other words, the Operation does not entail a distribution of the already existing liquid resources, but creates the possibility that they will be used through resolutions that will have to be taken in due time following a conscious analysis of the strategic and financial context of the time, if and to the extent that such resolutions are consistent with it.

For the sake of clarity, the following table illustrates the accounting effects of the Transaction based on the balance sheet as of 30 June 2022. Considering that the Extraordinary Shareholders' Meeting is also called to resolve on the proposed cancellation of 170,000,000 treasury shares as the first item on the agenda, the table below also illustrates the effects of this possible operation.

CIR S.p.A - Synthesis of Financial Position as at 30 June 2022 (in thousands of euros)					
	A	B	A+B=C	D	C+D
	30/06/2022	Cancellation Treasury Shares	Pro forma 30/06/2022	Capital Reduction	Pro forma 30/06/2022
Activities	707,777		707,777		707,777
Share Capital	638,604		638,604	218,604	420,000
Unavailable reserves (legal, share premium, other)	35,857		35,857		35,857
Available reserves (including profits carried forward)	16,473		16,473	- 218,604	235,077
Profit for the period	9,341		9,341		9,341
Treasury shares in portfolio	97,122	87,232	9,890		9,890
Reserve for treasury shares	- 97,122	- 87,232	9,890		- 9,890
Net assets	700,275		700,275		700,275
Non-entity liabilities	7,502		7,502		7,502
Total Liabilities and Net Assets	707,777		707,777		707,777

4. Conclusions

In consideration of the foregoing, the Board of Directors proposes to the Shareholders' Meeting to voluntarily reduce the share capital from Euro 638,603,657 to Euro 420,000,000 and thus for an amount of Euro 218,603,657, to be allocated to the creation of an available reserve and without proceeding to any reimbursement of capital to shareholders.

5. Amendment of Article 4 of the Articles of Association

Moreover, following the proposed reduction of the share capital, Article 4.1 of the By-Laws would be consequently amended to reflect the new amount of the share capital, which would result, following the execution of the voluntary capital reduction, equal to Euro 420,000,000. Article 4.1 of the By-Laws, therefore, would be reformulated as indicated in the New Text column of the proposed resolution below, without prejudice to the possible further

amendment resolved upon with item 1 on the Agenda, which - if actually resolved upon and subsequently recorded in the Company Register - would amend Article 4.1 in the part relating to the number of shares into which the share capital is divided.

6. Effectiveness pursuant to Article 2445 of the Civil Code

Even if the reduction of capital does not lead to the reimbursement of capital to shareholders, it is considered, in accordance with the prevailing doctrine and jurisprudence, that Article 2445 of the Civil Code is applicable, which provides that the reduction of capital may only be effected after 90 days from the day of registration in the commercial register, provided that within this period no shareholder creditor has objected prior to registration.

7. Information on the recurrence of the right of withdrawal

The proposed amendment to the Articles of Association does not constitute one of the cases provided for the exercise of the right of withdrawal by shareholders pursuant to Article 2437 of the Civil Code.

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All of the above, we propose that you pass the following resolution:

"The Shareholders' Meeting of CIR S. p. A. - Compagnie Industriali Riunite, having regard to the Explanatory Report of the Board of Directors,

RESOLVE

1. *to reduce the share capital from €638,603,657 to €420,000,000 and, therefore, for a total amount of €218,603,657, allocating this amount to the creation of an available reserve and without proceeding to any reimbursement of capital to shareholders; this reduction to be carried out, in accordance with the provisions of Article 2445 of the Italian Civil Code, only after ninety days from the day of registration in the Company Registry, provided that within this term no shareholder creditor has filed an objection;*
2. *To amend Article 4.1 of the Articles of Association as indicated in the New Text column (where changes from the current text are highlighted):*

CURRENT TEXT	NEW TEXT
<p>Article 4.1 The share capital amounts to Euro 638,603,657 (six hundred thirty-eight million six hundred three thousand six hundred fifty-seven) consisting of 1,277,207,314 (one billion two hundred seventy seven million two hundred seven thousand three hundred fourteen) shares with no par value.</p>	<p>Article 4.1 The share capital is Euro 420,000,000 (four hundred and twenty million) consisting of 1,277,207,314 (one billion two hundred and seventy-seven million three hundred and fourteen) shares with no par value.</p>

3. *to grant the Board of Directors - and on its behalf the Chairman and the Managing Director, severally and not jointly - all powers necessary to execute, also through proxies, this resolution and file it for registration with the Register of Enterprises, accepting and introducing any formal and non-substantial amendments, additions or deletions thereto*

that may be required by the competent Authorities, and carrying out the relevant publicity formalities".